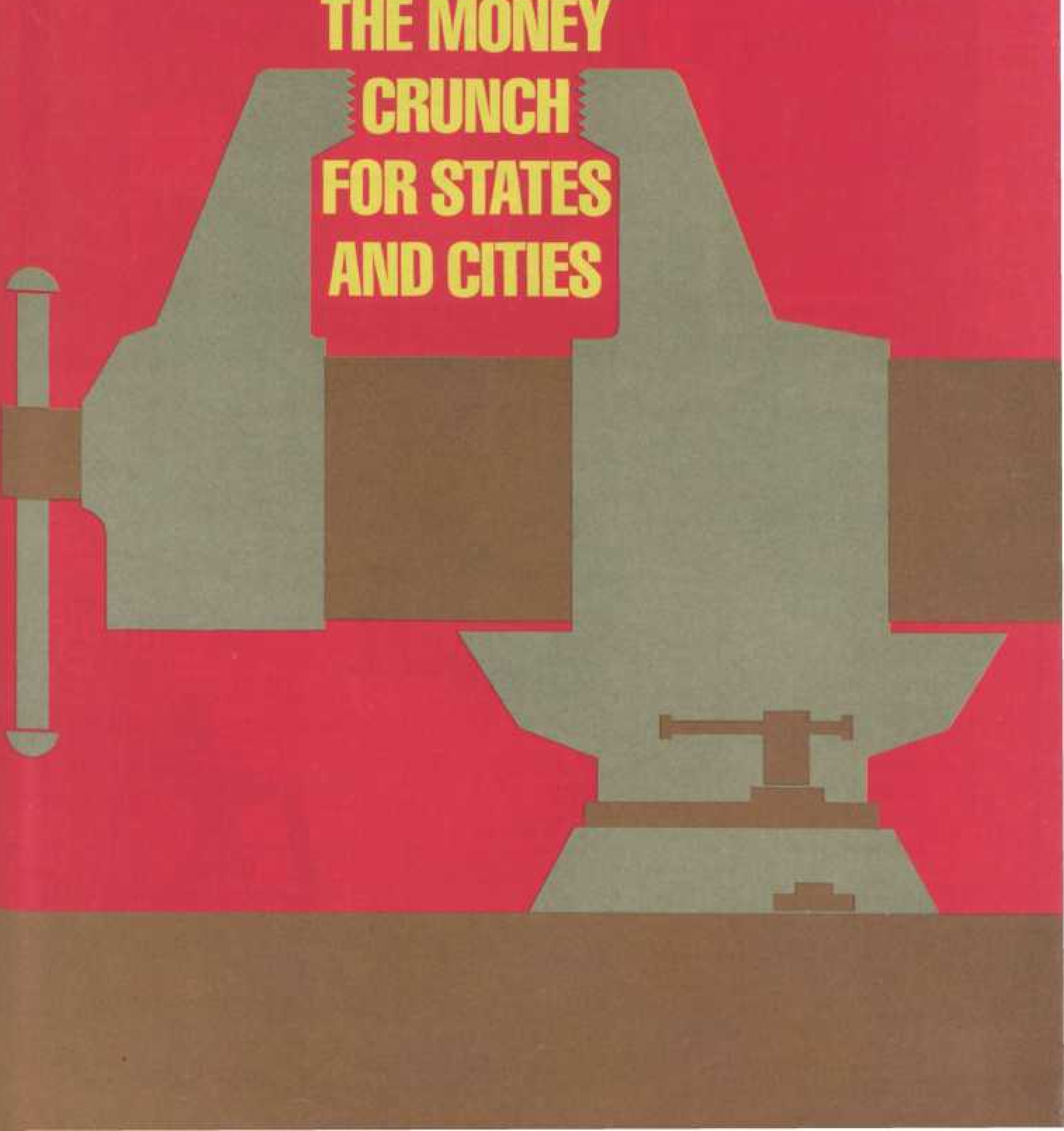
A USEFUL LOOK AHEAD FROM WASHINGTON OCTOBER 1975

Nation's Business



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The illustration above shows a few of them. For more information contact your local INA agent. He's listed in the Yellow Pages.

IT PAYS TO USE IMAGINATION

INA

INSURANCE COMPANY OF NORTH AMERICA • LIFE INSURANCE COMPANY OF NORTH AMERICA • PACIFIC EMPLOYERS GROUP

Nation's Business

VOLUME 63 • NUMBER 10 • OCTOBER 1975

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The Local Tax Crisis

MOST OF YOU remember the children's story about the Pied Piper and the children of Hamelin. The article on page 22, "The Money Crunch for States and Cities," drives home the same point that story makes—namely, there comes a time when you have to pay the piper. Or else.

City and state officials all over the nation are now struggling to solve problems that were years building. These problems stem primarily from rising expectations of citizens for services, with too little concern over how to pay for them in the long run.

The moral of the Pied Piper story is worth keeping sight of when it comes to government services. The day of reckoning can arrive sooner than expected, and the reckoning can be painful.

Senior Editor Vernon Louviere, who wrote the article on the money crunch, talked with many governors and mayors. Almost without exception, he found agreement that it is time to draw the line on what services can be offered within the revenue available to pay for these services. He also found nearly unanimous opinion that citizens are going to have to give up some services, or be willing to pay the costs—now, not tomorrow.

• • •

In these days of so much criticism of government activities that are unnecessary or don't work, it is surprising that one federal program which has done what it was designed to do now faces an uncertain future.

The article on page 31, "The Threat to an Export Program That Works," is about the program commonly called DISC, which faces trouble on Capitol Hill. DISC is aimed at increasing exports without exporting jobs, and the article explains how it does that.

One impressive statistic alone seems to offer a good reason for continuing the program: For just one company, General Electric, and its suppliers, jobs employing American workers directly or indirectly related to foreign trade number more than 80,000.

• • •

Another article you will find informative is "How to Hire the Right Man." It's on page 68.

There are a lot of hidden costs, both in time and money, in selecting the right man for the right job—so much money and time that it doesn't make sense to fly by the seat of the pants in making a decision. The author, an expert in the field, suggests ways you can cut down on the possibility of error.

• • •

As someone concerned with the art of management, you will also find this month's "Lessons of Leadership" article valuable. It's an interview with Robert H. Dean, who started at Ralston Purina as a clerk and today is the company's chairman.

Ralston Purina has done very well under Mr. Dean. One reason, he feels, is a management system that emphasizes individual achievement. It is a system with some unusual aspects. Turn to page 46.

• • •

As someone concerned with labor problems, you will be interested in the "Sound Off Response" on page 18. It is a report on the results of our poll of readers on the question, "Should secondary-boycott picketing at construction sites be legalized?"

This month's "Sound Off to the Editor" question, on whether you should be able to write your congressmen postage-free, is on page 17. Read the accompanying material and, if you would like to share your views on the subject, clip the form and send it in. The NATION'S BUSINESS staff is interested in what you have to say. So are other readers.

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 BY JOHN COSTELLO
Associate Editor

Rising Demand for Managers

Demand for executives has risen sharply since hitting bottom last February.

"That month was the low point for the past 12," says John F. Schlueter, executive director, Association of Executive Recruiting Consultants, Inc., New York.

"Search requests rose in March, April, and May, but stayed on a fairly low plateau. In June, demand increased sharply, and it has continued to rise, month by month, since."

Demand, Mr. Schlueter explains, is a measure of the number of new requests his association's members receive from corporate clients to locate executive talent.

"Executives sought most often are those with a background in accounting or finance," he says. "Next are those with general management experience."

Other management categories most in demand, in order of rank:

- Marketing and sales.
- Manufacturing and production.
- Staff, including personnel and public relations.
- General engineering, science, and research.
- Electronic data processing.
- Government and education.

"Although accounting and financial executives are the group most sought after," Mr. Schlueter reports, "those who command the highest salaries are general managers.

"More than 50 percent of the search requests for general managers carry salary offers of $50,000 a year and up. Only about a fourth of the searches for financial or accounting executives are in that salary bracket."

Why are financial and accounting executives in such demand?

"All companies want good control of costs," Mr. Schlueter says.

As for the next category, general management, "there's always turnover—executives going up the ladder or out the door," he says.

"So you'll always find a replacement market existing for them."

Bright Outlook for the Year 2000

Forecast: Sunny.

"The American standard of living promises to reach spectacular new highs," says James P. McFarland, chairman and chief executive officer, General Mills, Inc.

"There will be significantly larger numbers of women in work that involves the exercise of individual talents," says Catherine B. Cleary, president, First Wisconsin Trust Co. "Fields like engineering, science, and medicine."

"The people of the world will be better fed," says H. Robert Diercks, vice chairman, Cargill, Inc.

These forecasts about the year 2000 were among those made in response to a request from the north central home office of The Prudential Insurance Co. of America in Minneapolis.

October, 1975, marks the insurance company's 100th birthday. To celebrate it, the Minneapolis office is sealing the predictions of local leaders in a time capsule to be opened on the company's 125th birthday.

It was recognized, of course, that forecasts can be fallible.

Here's the prediction of D.F. McElroy, chairman and president, Northern States Power Co.:

"There are only three things we really know for sure about the future.

"It will not be totally like the past.

"It will not be like we think it's going to be.

"And the rate of change will be faster than ever before."

What to Expect if Your Company Says Move

Nearly nine companies out of ten give an executive some help when they ask him to transfer to a new lo-

Executive Trends *continued*

cation. That's what a report prepared for Ticor Relocation Management Co., New York, shows.

A survey of more than 600 major firms reveals that:

- Forty-six percent say the transferred employee must arrange on his own for the sale of his home. However, he's reimbursed for some or all sales expenses.
- Twenty-nine percent employ outside firms which take his home off the employee's hands.
- Eleven percent either offer to purchase the home or find a buyer.

"Over the past few years, relocation assistance has consistently increased," says Charles D. Atwood, president.

"It appears that employers recognize the hardships a transfer can impose on a family and are continually working to improve both the degree and the quality of assistance."

Here are the moving expenses most often picked up by companies and the percentages of firms that pay them:

Broker's commission on sale of home	72
Other normal closing costs	70
Cost of maintaining extra home in transition period	48
Mortgage discount points	41
Loss on sale below market value	33
Loss on sale below cost	18

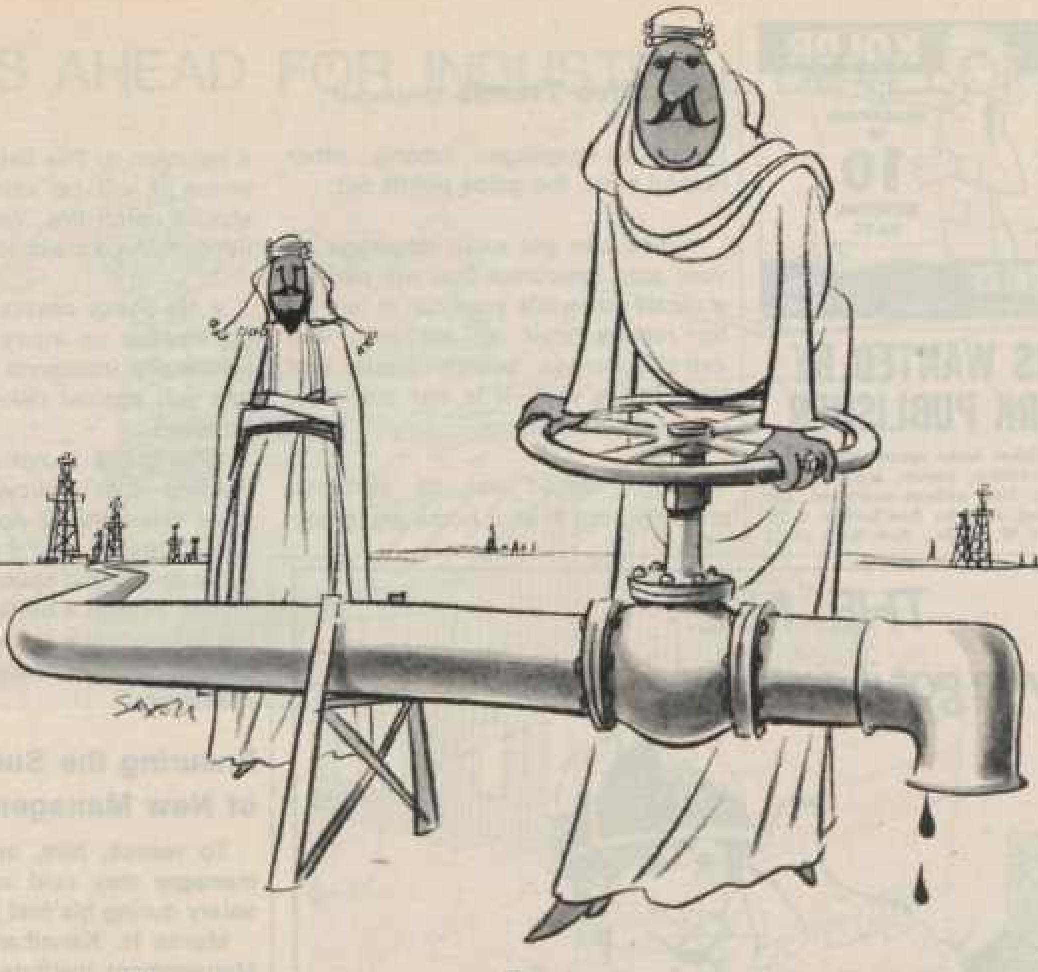
Despite inflation and recession, more than half the firms employed said they transferred as many employees in 1974 as they did the year before. And while 21 percent reported fewer transfers, 19 percent reported more.

How to Understand Insurance Policies

What's the average buyer's reaction when he tries to read his insurance policy?

Frustration and confusion, says James S. Kemper, Jr., president, Kemper Insurance Companies, Long Grove, Ill. The reason the buyer is frustrated, Mr. Kemper adds, is the "complex but legally required language used in insurance policies."

His company has issued a free, commonsense guide to insurance which puts that legal jargon into



Executive Trends *continued*

layman's language. Among other helpful hints, the guide points out:

- You can get extra coverage on your auto insurance that will pay for a rental car while your car is laid up for repairs after an accident. The extra coverage usually costs less than $10 a year. It is not available, however, in all states.

- You should list all personal property kept in your home and place a value on it. The list should be kept where it will be safe if your home should catch fire. You will need the list to make a claim for damages.

- No policy covers you for liability on disease or injury you cause intentionally. Insurance is meant to protect you against risks which are unforeseen.

"The guide is not a substitute for reading your policy," Mr. Kemper says. "However, it does help explain how to read it, and it describes some basic needs and coverages.

"We believe a better-informed buying public leads to better buying decisions and ultimately to satisfied customers."

Ensuring the Success of New Managers

To recruit, hire, and train a new manager may cost as much as his salary during his first year on the job.

Marita H. Kennihan, of The Falls Management Institute, Raleigh, N.C., says that many companies overlook this factor.

For example, a North Carolina contractor hired a whiz of an executive from the Midwest. He suited the job to a T. He had been near the top of his class at MIT, was a licensed engineer, and had a striking track record in the heating and air-conditioning field.

But he lasted only two days on the job. The reason: His wife was unhappy in Dixie.

"An executive's personal goals and values," says Mrs. Kennihan, "are the most important consideration."

What you have to learn, she says, are answers to these questions:

- Do his goals and the company's mesh?
- Can he see himself in the company's future—and can you?
- What is most important to him?
- Will his job help him maintain his values, or will they get in the way of his personal and professional progress?

"In the case of the North Carolina contractor's division manager, the wife came first," Mrs. Kennihan says. "So you've got to talk about family needs when you talk about values."

The failure to do so can be costly.

WHAT'S AHEAD FOR INDUSTRIAL DEVELOPMENT

New Trends in Plant Site Choices

In Oklahoma City, Okla., Xerox Corp. is building a big, new $70 million plant to manufacture dry inks and photoreceptors.

In Skowhegan, Me., Scott Paper Co.'s new $190 million pulp mill will vastly enlarge the town's tax base.

In each instance, the community played a vital role in attracting industrial development.

Despite the recession, American business will spend more than $113 billion this year for new plants and equipment. Those billions will help build 3,800 new industrial facilities and expand another 5,300, it is estimated.

Which communities will benefit more from this industrial expansion?

Nation's Business, in its annual look at industrial development, describes what states and communities are doing—and what corporate developers look for—to encourage economic growth.

Energy.

That headline word describes the resource a company often looks for first when it decides where to build a new plant or expand an existing one.

"We used to take energy for granted," a corporate site hunter says. "But no longer."

Eight years ago, in a sample poll, this question was posed to members of the Society of Industrial Realtors:

What makes an area a prime choice for industrial development?

The realtors ranked 18 factors in order of importance. The first five were:

1. Proximity to market.
2. Labor.
3. Transportation.
4. Raw materials.
5. Availability of a suitable site.

If the realtors were surveyed to-

day, their order of priorities would probably be different. Most likely, energy would head the list.

Site for a $70 million plant

Xerox Corp., the maker of office copiers, illustrates that point.

In 1973, it began searching for a site for a new $70 million plant to make dry inks and photo-receptors. William S. Mazo, Xerox's manager of facilities planning and administration, describes the requirements:

"We looked for a central location with an adequate supply of skilled and technical labor. We also wanted easy access to the site by air travel or highway. In addition, the area had to have local business services essential to support our manufacturing operations.

"But above all, we had to have a reliable source of energy. That was a must for this type of operation."

Xerox wanted the plant on stream by mid-1976. So there was pressure to pick a site quickly.

"Of course," Mr. Mazo says, "that's a situation common in many growing companies."

40 areas screened

In short order, Xerox screened more than 40 metropolitan areas in the United States.

By the end of February, 1974, the firm had picked the area. By mid-August, Xerox officials held the groundbreaking ceremonies on the 103-acre site.

The location?

In Oklahoma City, 12 miles west of downtown, surrounded by oil and gas fields.

"At one time," says Mr. Mazo, "you could count on a reliable source of energy, and a good backup supply, at almost any location. That's no longer true. In some areas, power companies are very reluctant to make long-term commitments."

"Energy's availability and cost is the biggest single new factor in site selection," says Michael J. Mulroy, director of product operations planning, Motorola, Inc. "Five years ago, it was a low-priority item."

Few disagree.

"Energy is indeed a problem," says James A. McComas, Jr., director, Division of Business and Industrial Development, Maryland Department of Economic and Community Development.

"We have no natural gas available for new industry or for plant expansion.

"This is offset, however, by Maryland's ability to attract companies not requiring natural gas. The state is exceptionally well-located for market-oriented companies, for example, because of its geographical location and its excellent transportation facilities—highway, rail, water, and air."

Merchandise what you have

As a spokesman for the American Industrial Development Council advises, if your state isn't rich in energy resources, "Merchandise what you do have."

Utah stresses its natural resources.

Advertisements from that state's Industrial Promotion Division cite "vast deposits of coal, oil shale, oil, oil sands, and uranium, along with hydroelectric power and promising geothermal explorations" that mark Utah as a major potential contributor to America's critical energy needs.

Says Dale B. Carpenter, division director: "I think the Rocky Mountain states will benefit from the abundance of energy available in this area."

Recreation is a resource

To Utah, snow is a natural resource, too.

The state's Travel Council plugs famed Utah ski resorts—Alta, Snowbird, and Park City, as well as other skiing areas—at ski shows and through travel agents.

"We promote skiing as an industry," says Mickey Gallivan, council director.

Idaho's chief industrial developer, Lloyd D. Howe, takes a like view. Mr. Howe, administrator of the Division of Tourism and Industrial Development, says:

"I don't think it makes a bit of difference whether it's a steel mill or a ski lift. What we're talking about is creating jobs for people.

"In Idaho, travel and recreation is the third biggest industry."

American Airlines has helped Tucson, Ariz., among other cities, use recreation to promote industrial development.

Tennis-playing businessmen from cities served by American Airlines have been invited to sunny Tucson for matches this year and last with some of the sport's top professionals. American arranged and sponsored the matches.

"If they're tennis buffs, they leap at the chance," says Thomas J. Ross, Jr., vice president, American Airlines. "At the same time, the trip introduces these business decision-makers to Tucson."

He adds that "these executives are encouraged to think of Tucson as a place to hold business meetings or to locate."

American has been sponsoring similar golf matches in a number of other cities.

Quality of life is an asset

In some cases, one expert says, a city's quality of life can be a bigger asset than energy.

Dr. Charles W. Minshall, senior regional scientist, the Battelle Memorial Institute, recently addressed members of the American Industrial Development Council at a gathering at the University of Oklahoma.

"Don't think of industrial development too literally," he said. "If you do, you'll miss the boat."

America, he said, has entered a postindustrial era and one of the new era's characteristics is a relative decline in overall manufacturing jobs.

"Administrative offices, from a corporate headquarters down to basic consumer services, are increasingly important sources of jobs," he added.

Dr. Minshall noted that many economists estimate manufacturing employment won't climb more than 13 to 18 percent between now and the year 2000.

"By contrast," he said, "administrative jobs are expected to increase more than 50 percent."

A Battelle Institute poll shows that quality of environment is the No. 1 factor in selecting a home for an administrative office. Energy is a relatively minor consideration for these activities, Dr. Minshall said.

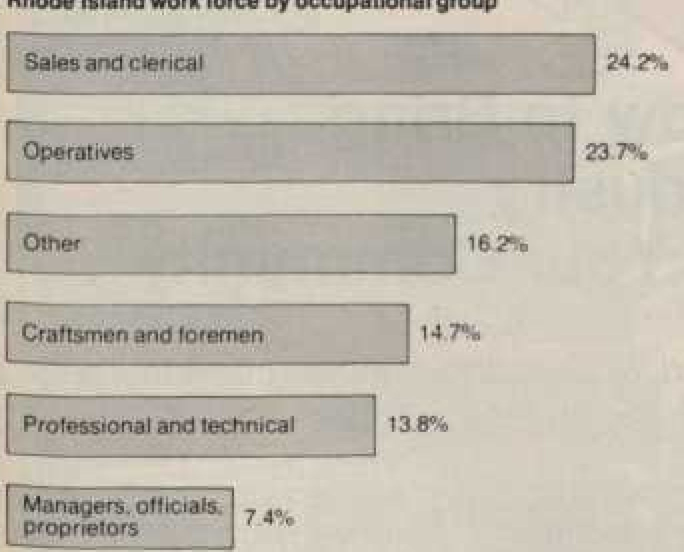
Some industrial developers already have received the message.

"In our area," says a southwest

Our state can train the workers you need. And at little or no cost to you.

Here's how we work:

Rhode Island has the highest number of trained workers per square mile of any state.



Nevertheless, you may require skills that our manpower pool lacks. What then?

In that case, within 24 hours, we'll design a manpower training program just for you.

We'll recruit and screen with you. We'll run the training sessions. We'll use our facilities, our equipment, our instructors. We'll have everyone trained and ready when you're ready to start, so you won't lose a minute.

If you prefer on-the-job training, we'll pay half the salary for your trainees and all the salary for your instructors.

Now for some other parts of the Rhode Island manpower picture:

Our wage levels are unusually reasonable.

Travel time between work and home is short. (We're a small state. Remember?)

And we have one of the most stable labor-management relationships in the country. Our lost worktime through labor disputes is one-third under the national average.

We work hard in Rhode Island, which can make things easier for you. You ought to find out more about us.

Philip W. Noel
Governor, State of Rhode Island

Rhode Island
Department of Economic Development
One Weybosset Hill, Providence, R.I. 02903 401-277-2601
Attention: James O. Roberson, Director

Please tell me more about Rhode Island's ☐ Labor pools and manpower training ☐ 8-part tax incentive program ☐ Lowest rate financing ☐ Transportation and market proximities

Name ____________________

Title ____________________

Company ____________________

Street ____________________

City __________ State __________ Zip __________

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New Trends in Plant Site Choices *continued*

banker, "we probably spend about 30 to 40 percent of our time trying to line up headquarters operations. That's a definite switch from five or ten years ago."

Volvo in Virginia

But some factors don't change.

Last July, Volvo, the Swedish automaker, broke ground for a major assembly plant at Chesapeake, Va. The company paid $3.8 million for the 514-acre tract on which the plant is being built.

Eventually, Volvo expects to spend $150 million on a facility that may employ 3,000 people and turn out 100,000 vehicles a year.

How did Virginia land Volvo?

Volvo President Bjorn Ahlstrom says the final choice was influenced by "the attitude, treatment, and enthusiasm of state, city, and local industrial development officials."

Geography counts

However, one of the essential requirements was proximity to a major seaport. Virginia has that.

Guy H. Kissinger, deputy director, Virginia Division of Industrial Development, says geography is one of his state's greatest assets.

"We have some built-in advantages," he says.

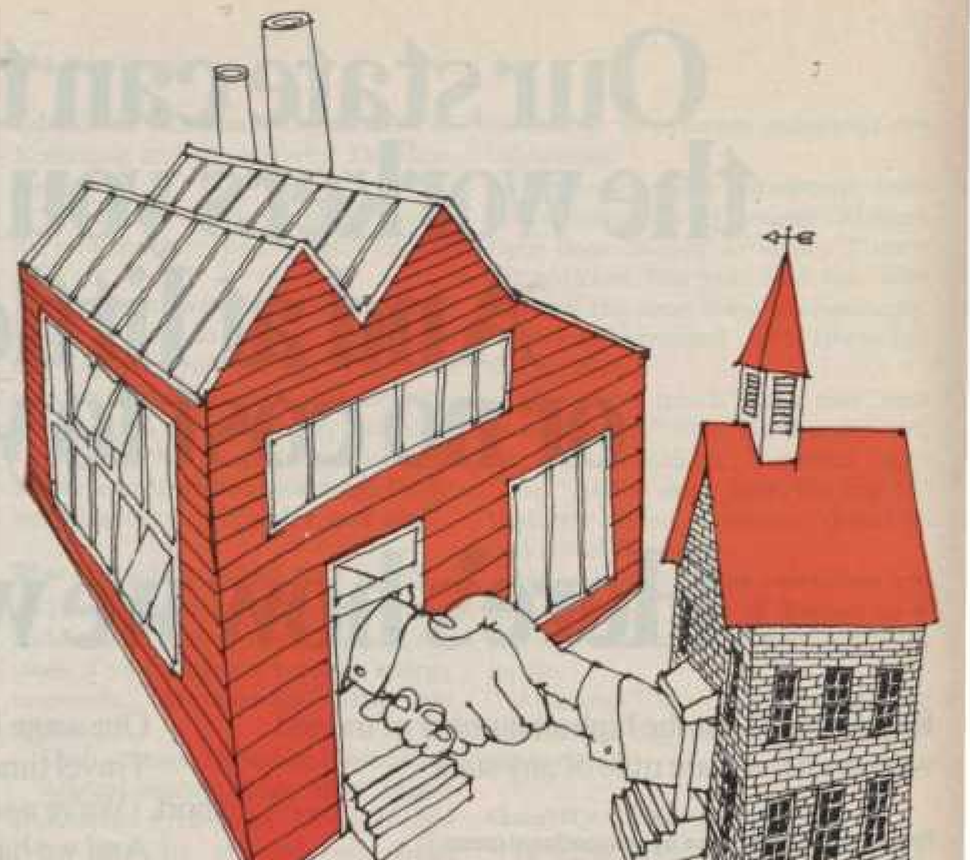
"One of them is perhaps the finest natural harbor in the world—Hampton Roads. It's a great help with companies that import and export, partly because of the frequent sailings.

"We have three major ports there—Norfolk, Newport News, and Portsmouth.

"Then, we're smack in the middle of the East Coast—halfway between Maine and Florida.

"We can thank the good Lord for that." END

Another story on industrial development, **"Finding Funds for Companies,"** starts on page 80B.



How to Bring Industry to Your Community

Hard work is the common denominator in these success stories

HOW DO YOU GET a good corporate citizen to join your community? One who will hire your sons and daughters, fatten the town's tax kitty, and take an active part in civic affairs.

Harbor Beach, Mich., knows how and did.

Likewise, Lincoln, Nebr.

And Portsmouth, Va., looks as if it will succeed in doing so.

The right formula

There's a common denominator in the success stories of all three communities. The three followed a formula that will work for any community, industrial developers say. It is summed up like this:

Work harder—and smarter.

Early this year, G.D. Searle & Co., the big health care firm based in Skokie, Ill., expanded one of its operations into Harbor Beach. It bought a 70,000-square-foot fermentation plant in the little town (pop. 2,134) on the shore of Lake Huron.

At one time, Hercules, Inc., produced monosodium glutamate, a food seasoner, at the Harbor Beach plant.

"But the product didn't fit in with the company's long-term plans," a spokesman says. "So the plant was excess to our needs."

For a while, Hercules leased the plant to other tenants, but they went out of business. That was bad news to Harbor Beach.

The town is a busy summer resort.

"We're only a three-hour drive

Ford goes to almost any length to meet your truck needs

New! Long 118" BBC Louisville Line tractor

One reason why more people buy Ford Medium and Heavy trucks than any other make.

Ford trucks have the most complete range of cab lengths in the industry . . . to fit your special trucking needs. They're powered by America's most popular gas V-8's. Or by your choice of popular Diesel engines. They range from 14,000 lbs. to 70,000 lbs. GVW. And they're backed by one of the most efficient parts and service systems in the business.

You know they must be good because people buy more of them than any other make. And you know there must be one to fit any job you have. Why not call your Ford Dealer and talk trucks? There'll never be a better time than right now.

Bumper - to - back - of - cab dimension (BBC) of trucks shown, top to bottom:

52" BBC W-Series Diesel linehauler, also comes with 82" BBC sleeper cab.

82.5" BBC C-Series is America's most popular tilt cab truck by far.

93" BBC LN-Series Louisville short conventionals set new quality standards in mediums and heavies.

108" BBC F-Series conventionals are Ford's best-selling trucks.

105" BBC L-Series Louisville long conventionals gross up to 82,000 lbs. GCW.

118" BBC LTL-9000 Long Louisville is new top-line Diesel linehauler.

COMMITTED TO MORE ROADTIME, LESS DOWNTIME.

FORD

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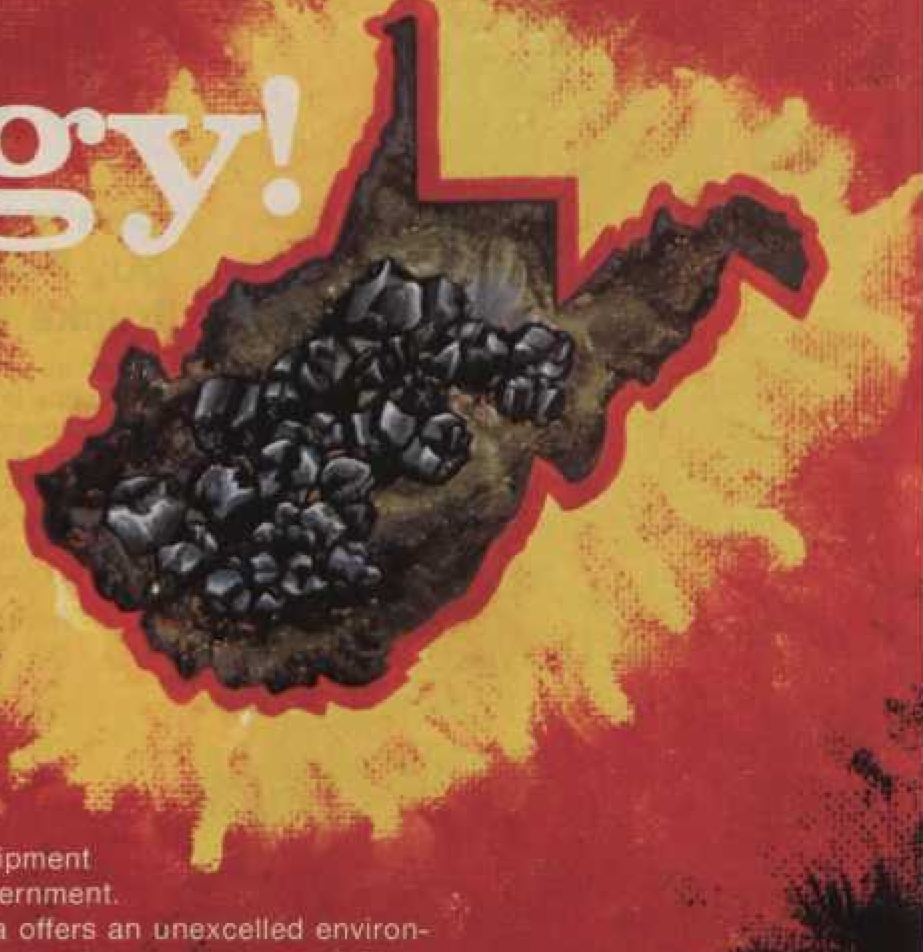

How to Bring in Industry *continued*

from Detroit," says Bryce G. Courter, president of the Huron County Bank.

"Tourists come up for the weekend, some just to fish. We have what may be the largest man-made harbor in the world.

"This town used to be a big port for lumber boats. There's really good fishing in the harbor.

"We also have a colony of big summer homes. Once they were owned by wealthy Detroit families—the Fords, Dodges, and Hudsons. Now other well-to-do midwestern families summer here.

"But Harbor Beach needed year-round jobs for our people."

Then G.D. Searle showed interest in the unused Hercules plant.

"We preferred a location somewhere in the Midwest," says M. Donald Seelig, corporate director of facilities.

"We were also looking for an existing facility, so we could get on stream quickly.

"A primary consideration was the type of equipment, and this plant had fermentation equipment. That was what we needed."

After trying the plant out, on a short-term lease, G.D. Searle bought it.

Total investment: $10 million.

What sold Searle

For Harbor Beach, the payoff is 60 full-time jobs. Eventually, G.D. Searle expects to put 100 people to work in the plant.

"That may not sound like a lot," says Mr. Courter. "But this is exactly the kind of payroll we'd like to have. We prefer four or five companies like Searle, rather than one giant employer.

"That way, we have diversification—and the job stability that goes with it."

What clinched the location for Searle?

"Most important," says Mr. Seelig, "was the very friendly reception we got from the people at Harbor Beach. Mayor Colin Gainor, for example, was a great help. So were Michigan state officials, especially John P. Kavanagh."

Mr. Kavanagh is head of the Industrial Development Division, Office

of Economic Expansion, Michigan Department of Commerce.

Among other assistance, Mr. Kavanagh showed how the plant would come under a new state law which extends some tax advantages to businesses that expand or locate in Michigan.

A $14 million prize

Lincoln, Nebr., parlayed a similar combination—hard, smart work and a warm handshake—into a $14 million prize.

In the summer of 1973, Sadaichi (Sid) Saito called on John R. Fraker, executive vice president, Lincoln Chamber of Commerce. Mr. Saito was site hunting for his employer, Kawasaki Motor Co.

A year earlier, Mr. Fraker had gone to Japan to sing his hometown's praises to corporate executives there.

"I went with a group of industrial development officials from about 40 states," he says. "Our trip was set up by the U.S. Department of Commerce. We held a two-day seminar for Japanese businessmen. The theme: how to do business in the United States.

"Nearly every major Japanese firm, including Kawasaki, had a representative at the seminar.

"I went armed with a two-inch-thick handbook that our chamber had put together. It gives reams of economic data about Lincoln. In other words, I came prepared.

"We don't want a prospect to have to come to us and ask for information. We like to anticipate his needs.

"I also had a lot of business cards printed in English and Japanese. When Mr. Saito showed up here in my office, I gave him one. It was a small matter, I suppose, but it made a very good impression."

Mr. Saito had a question.

Was there an empty building, with about 200,000 square feet of floor space, that Kawasaki could buy in Lincoln? The company was looking for one where it could assemble its motorbikes in the Midwest.

"I said we didn't have one that size available," Mr. Fraker says. "However, I told him we'd be glad to build one to Kawasaki's specifications. Unfortunately, the company was looking for an existing facility."

Mr. Saito departed for the airport.

Fifteen minutes later, Mr. Fraker got a phone call from a friend at the First National Bank and Trust Co.

Making a quick decision

"I hate to tell you this, John," he said, "but I understand Addressograph-Multigraph Corp. is not going to move into the new plant they just built here. Do you know where I could get a prospect for the building?"

"I think one just walked out of my office," Mr. Fraker replied. He dashed downstairs and drove to Lincoln Municipal Airport, hoping to collar Mr. Saito before he left town.

"I missed him there," he says, "but I caught him by phone the next day. The building was just right for Kawasaki, which was already sold on Lincoln.

"The building changed hands so quickly that we never had to announce that it lacked an occupant. That kind of news can be a shattering blow to a city."

Kawasaki's total investment: $14 million.

Its annual payroll, for 300 employees, is $2.5 million. Eventually, Kawasaki expects to hire 1,000.

A cold reception

Harbor Beach and Lincoln both rolled out the welcome mat for their new corporate citizen.

But in Portsmouth, Va., one got the cold shoulder—at first. Mayor Richard Davis, the local chamber, and state industrial developers had to sell the town on the prospect, not the prospect on the town.

Hampton Roads Energy Co. wanted to build a 175,000-barrel-a-day refinery at this port city, near the mouth of Chesapeake Bay.

Mayor Richard Davis was delighted. So was Robert A. Metrakos, executive vice president, Portsmouth Chamber of Commerce.

"Our tax base had been stretched as far as it could go," says Mayor Davis, "without imposing a financial burden on homeowners."

The state's Division of Industrial Development spelled out what the refinery would mean to Portsmouth and its 111,000 residents. The statistics were impressive:

Willard F. Rockwell, Jr., Chairman of the Board, Rockwell International, talks about Penn's Southwest, a nine-county area in Southwestern Pennsylvania, world headquarters for his company, and a place you should consider when locating your business.

"Penn's Southwest is one of the great research and development centers of the nation...

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"Gulf Oil spends $47 million a year on R&D, right here...U.S. Steel spends $30 million...Koppers has a multimillion-dollar program...Heinz, $4 million for food studies...

"The Society of Automotive Engineers moved its national headquarters here, just last year...PPG has four major research facilities...

"The Bureau of Mines is heavily involved in energy research in this area...and there are many others...

"It's really one of the world's great industrial centers...we headquartered here because of its central location...especially as far as the big commercial markets are concerned...

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Jay D. Aldridge, Penn's Southwest Association
One Oliver Plaza, Dept.NB, Pittsburgh, Pa. 15222

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Penn's Southwest

THE NEW NEIGHBORHOOD

• A $50 million payroll for 3,000 construction workers during the two years the refinery was under construction.

• A permanent payroll of $7.5 million a year for 500 people at the refinery and its waterfront terminal.

• Satellite industry, serving the refinery, that would employ 1,900 people with an annual payroll of $14 million.

• Each year, $3.2 million in taxes from the refinery for Portsmouth, and $1.8 million for the state of Virginia.

"The refinery would double our tax base," says Mr. Metrakos.

Too crass?

But environmentalists alarmed some Portsmouth residents. Refineries, these critics said, are notorious polluters. They warned that Portsmouth would be selling its birthright for a mess of pottage, if it allowed a refinery to be built.

Portsmouth's chamber went to work. It sent a delegation of five area residents to Myrtle Grove, La., site of a modern Gulf Oil Corp. refinery. Among them were a labor leader, a housewife, a radiologist, an educator, and a businessman. Nearby Norfolk, Va., sent a city councilman, and a staff member of the Norfolk Chamber of Commerce at city expense.

"We sent foes of the refinery as well as friends," says Mr. Metrakos.

"We paid all their expenses. We told them to rent cars and drive around to talk to anyone they liked.

"They interviewed plant officials and people who lived next door to the refinery. It is surrounded by truck farms and orange groves.

"One lady, who lives across from the refinery, made a typical comment. She said her chickens don't get sick, her shrubs don't die, and her orange groves thrive."

Portsmouth residents who believed the refinery would be an asset returned home more convinced than ever.

Doubters had their fears erased by the trip.

Now, the community overwhelmingly supports the new facility.

City councils and chambers of commerce in four nearby cities—Norfolk, Suffolk, Chesapeake, and Virginia Beach—declared themselves in favor of the Portsmouth refinery.

The refinery has two more hurdles to clear. One is a dredging permit from the Corps of Engineers, another is an overall environmental clearance. The installation already has a green light from Virginia's air and water pollution boards.

Portsmouth believes the refinery will successfully run the gauntlet.

The attitude of labor

To bring in new industry, corporate planners agree, a community must really want it.

"The primary factor is the attitude of the community," says William H. Hall, corporate manager, community and industrial relations, Rival Manufacturing Co., Sedalia, Mo.

"And," he adds, "the attitude of the labor force.

"I don't mean whether the labor force is union or nonunion. I'm talking about the desire to work.

"Absenteeism kills a lot of companies.

"If ten or 12 percent of your employees regularly fail to show up, you have to overhire to take up the slack. Then, some day, everyone shows up. You're stuck, because then you really don't have work for everyone to do."

Not kicking in the door

Armen Ervanian, vice president, real estate, Greyhound Corp., Phoenix, Ariz., echoes the view that community attitude is vital.

"Before we move in anywhere, we want to be sure the community wants us," he says.

"We don't want to get into zoning fights or environmental battles.

"If a community doesn't welcome us, we don't want to locate there.

"We want to be in a good environment and contribute to the community. Land use, environmental rules, and zoning make sense to us—provided the rules are reasonable.

"Proper zoning, for example, is in the best interests of everyone.

"But overregulation, such as federal land-use legislation, could be detrimental to the best interests of local communities and land users. Americans should give that a lot of thought." END

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There are several Saxon plain-paper copiers to choose from. But if you'd rather choose from our line of desk-top, coated paper copiers, you can do that, too. They're the perfect answer for people who need a low to medium volume copier.

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BY JAMES J. KILPATRICK

Answering the Demands of the Have-Nots

On July 28, Scribner's published one of the most disturbing novels to come along since George Orwell wrote "1984" some 36 years ago. The book is "The Camp of the Saints," by Jean Raspail, translated from the French by Norman Shapiro. If you haven't yet heard it discussed, you will—or at least you will if the liberal reviewing media don't kill it by silence or by ridicule.

The novel is laid in the near future, in 1990 or 2000 or thereabouts. The book jacket describes the theme with admirable brevity: The theme is "the end of the white world." The plot has to do with a million "Ganges refugees" who commandeer a thousand ships in India and set off for southern France. Are these pathetic, wretched invaders to be welcomed? Or resisted?

Let me come back to the novel in a moment. I finished it about two o'clock of an August morning, put it aside with a shudder, and had nightmares. The next day brought an issue of the National Observer with an off-lead story by Michael T. Malloy about the "new international economic order" being promoted by Third World members of the United Nations. A day or so later came Skeptic magazine, with an article by A. James Reichley, "The Case for Interdependence." Then came a substantial booklet from the Aspen Institute for Humanistic Studies, "Living with Interdependence—The Decades Ahead in America." Late in August, I happened to be in New York and stopped by the UN pressroom to pick up texts of "new order" resolutions. My eye caught a handout captioned, "India Requests Relief." It began:

"As unprecedented flooding of the River Ganges devastates immense areas, forcing millions from their homes, the government of India has requested emergency relief assistance from the United Nations system."

Taken together, fiction and fact compel some somber, sober thinking. We Americans are not much given to this kind of thought; perhaps few people are. Take every day as it comes, that is our guiding rule. And beware of pointy-headed planners: They live in dreamworlds. But the troublesome, nagging notion will not go away that the several authors are not dealing with dreamworld stuff. Metaphorically, the Ganges refugees already are heading for the docks.

In the novel, the people of India have been reduced to utter misery by famine, disease, and sheer numbers. Only a small spark of leadership is required to ignite the mass. Driven by hatred, envy, and despair, the Ganges refugees pack themselves aboard their rusted ships. Thousands die on the incredible voyage, but the unarmed armada keeps going. Privately, western leaders pray for a storm that will sink the whole fleet. Publicly, these leaders manifest a treacly brotherhood. The clichés of conventional liberalism come tumbling out: France must respond "in a clear, compassionate voice." France must share "both our material wealth and our moral resources."

The novelist builds the suspense, chapter by chapter, as his characters wrestle sincerely or hypocritically with the approaching dilemma. Who could drop bombs upon a million unarmed, starving men, women, and children? How could the affluent, enlightened nations of the West deny them refuge? But what is to be done with these swarming, stinking, impassive, unreasoning invaders? What is to become of the plump farms, the neat orchards, the comfortable villages of Provence? On an Easter Sunday morning, the helmsmen ground the rotten ships on the Cote d'Azur.

Very well. "The Camp of the Saints" is being denounced as a racist book, which it is, but race is an ancient theme that provides fair grist for a novelist's mill. The characters, sketched in allegorical black and white, are mostly overdrawn. But in apocalyptic writing, hyperbole is to be expected. It's a gripping novel.

At the United Nations this fall, Third World spokesmen will be voicing fresh demands for their new international economic order. These demands began to take specific form in May, 1974, in Resolutions 3201 and 3202 of the General Assembly. By overwhelming vote, the assembly solemnly proclaimed its determination to work for an economic order "based on equity, sovereign equality, interdependence, common interest, and cooperation among all states, irrespective of their economic and social systems, which shall correct inequalities and redress existing injustices." The goal is "to eliminate the widening gap between the developed and the developing countries and to ensure steadily accelerating economic and social development and peace and justice for present and future generations."

The resolutions go on to recite that the developing countries, which constitute 70 percent of the world's population, account for only 30 percent of the world's income. Under the existing international economic order, it has proved impossible for them to achieve an even and balanced development, the resolutions say. Indeed, the gap continues to widen between the haves and the

have-nots. These disparities must be banished. As one step toward that end, each nation may assert full control over its natural resources, "including the right to nationalization or transfer of ownership to its nationals." The United Nations has an obligation to adopt a "programme of action of unprecedented scope" to bring this new international economic order into being.

What this amounts to, as Mr. Malloy remarks in the National Observer, is that "the rest of the world has decided to have an economic revolution, and we are supposed to pay for it." Under the new order, "people in rich countries would pay more for what they buy, get less for what they sell, and maybe cut back on their standard of living."

British Prime Minister Harold Wilson embraces the prospect: "My government fully accepts that the relationship, the balance, between rich and poor countries of the world is wrong and must be remedied," he said in May. "The wealth of the world must be redistributed in favor of the poverty-stricken and the starving."

Other writers and other spokesmen are beating the drums of interdependence. They make some telling points. The world's population now stands at an estimated four billion. About 1.2 billion dwell in the developed nations. By 2000, just 25 years hence, the world's population is expected to reach at least six billion. By some respected estimates, the figure could reach eight billion. In either projection, the growth overwhelmingly will come among the black, brown, and yellow peoples of the developing Third World.

It is not necessary to conjure up dark visions of a Ganges armada. It is necessary merely to contemplate the economic demands and dislocations the next century will bring. In the Aspen Institute study, we are asked to think about how the statistical Jones family will be faring in the United States just ten years hence. If the Aspen prophets are correct, the Joneses will have one car only, a small Detroit-made station wagon. They will rely on bicycles for minor transportation and on buses for trips downtown. The high price of gasoline will discourage automobile travel. The high rate of taxation will leave them constantly pinched. They will be able to afford only half as much beef. They may feel less affluent and may lose some freedom of individual movement, but they may find certain aspects of their life agreeably simplified. "They will be far more conscious than they were a decade earlier of the impact of events in far-off places on their own daily lives."

To be sure, we have already become quite conscious of the impact of events in far-off places on our daily lives. The oil embargo is the most conspicuous example.

In July, the U.S. Geological Survey released a study of mineral dependency in 1974. The nation last year was more than 90 percent dependent on imports of primary materials for seven commodities—manganese, cobalt, chromium, titanium, niobium, strontium, and sheet mica. We were from 75 to 90 percent dependent on imports for our requirements of aluminum, platinum, tin, tantalum, bismuth, fluorine, asbestos, and mercury. We had to import more than half the zinc, gold, silver, tungsten, nickel, cadmium, selenium, and potassium needed for domestic use.

This picture is not visible to the Geological Survey alone. We may be certain that leaders of the Third World know the figures by heart. The successful experience of the petroleum-exporting countries is fresh in their minds. As the Third World pursues its new international economic order, we will be hearing more of these matters.

We will be hearing more, as well, about the morality of western affluence. There will be a new international doctrine of original sin. To judge from the fervid rhetoric of the UN resolutions, the guilt of our fathers must be visited upon our sons—the guilt for exploitation, colonialism, race prejudice, and slavery. Expiation of this guilt can be achieved only by lowering western standards of life in order to improve the quality of living elsewhere. It will become immoral—even more immoral than it is said to be now—for Americans to eat well while Asians, Indians, and Africans starve. Many of our young intellectuals already buy these ideas; their hair shirts are hanging in their closets, waiting to be put on.

Americans are by and large a soft-hearted people, generous to a fault, quickly moved by compassion for the plight of less fortunate people. But guilty? Not on your life. If America is developed and prosperous, so most of us would contend, it is because of nearly four centuries of hard work, inventiveness, ambition, and plain struggle; it is because of the strengths that derive from our political values; it is a consequence of divine providence, good luck, and sweat. These and other factors have combined to produce a way of life that, with all its shortcomings for some of our people, is vastly to be preferred to life along the flooded Ganges. The young intellectuals excepted, most of us, I assume, would like to hang on to our way of life.

How? One answer is to build Fortress America, tighten our belts, develop substitutes for imported raw materials, raise the drawbridge, and tell the rest of the world to go to hell. It is a foolish answer. At the other extreme is the vapid answer of France in Mr. Raspail's work of fiction—to surrender supinely to Third World demands, and to yield the inheritance of millennia out of stupidity, compassion, or fear. Such an answer is equally foolish. A wise answer is to be found in population planning, in economic accommodation, in generous assistance abroad, and in measures promoting vigorous self-help in developing lands. The prospect of Armageddon doesn't have to be embraced. It does have to be thought about.

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WHAT READERS WANT TO KNOW

Now that the Democrats have picked New York City for their 1976 national convention and the Republicans have chosen Kansas City, can you tell me when was the last time these cities were similarly selected?

The Democrats went to New York City in 1924 and the Republicans to Kansas City in 1928. Chicago still is the most popular place for these political conclaves. Since 1920, the Democrats have gone to Chicago six times and the Republicans five times. Cleveland, which almost nosed out Kansas City for the 1976 GOP gathering, hosted the Republican conventions in 1924 and 1936.

Now that the government has decided to do something about all that paperwork it foists on us, when can we expect some positive action?

Well, the Federal Paperwork Commission has just held its organizational meeting and has two years to give the President recommendations for trimming government reporting requirements. The commission's 14 members include state, local, and federal government representatives, an accountant, a consumer consultant to a food chain, a union official, an educator, and a retired lawyer—giving businesses, which shoulder so much of the paperwork burden, little representation.

How many advisory boards are there in the federal government and what do they do?

Well, there are 1,250 advisory bodies in all—boards, committees, commissions, and councils.

A total of 24,000 private citizens and public officials sit on these panels, which are staffed by 4,000 federal employees. There is a panel on sunburn treatment, a review committee on laxatives, a dance advisory panel, a board of tea-tasters, and a women's advisory committee on aviation.

In 1970, Congress created a committee to determine, among other things, whether so many advisory bodies are needed. Since then, 216 new ones have been created, 24 by acts of Congress, at a cost of $75 million a year.

How big is the food stamp program now?

What started out as a modest effort a decade ago now costs more than $6.6 billion a year.

Today, one in every four Americans—57.3 million people—is eligible for food stamps. In one recent month, 19.4 million received stamps.

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SOUND OFF TO THE EDITOR

Postage-Free Letters to Your Congressmen?

Members of Congress can write to their constituents free of postal charge, but constituents have to buy stamps when they write to their senators or representatives.

Several bills pending before Congress would change this, giving rank-and-file Americans a reverse franking privilege.

In fact, some of the bills would allow a free postal ride for anyone writing to the President, the Vice President, and executive agencies of government, as well as to members of Congress. Last year, a bill was offered which even would have extended citizens the privilege of toll-free phone calls to their congressmen.

No firm estimates have been placed on how much such proposals would cost. However, it is conservatively estimated that free mail addressed to Congress alone would increase U.S. Postal Service deficits by tens of millions of dollars annually.

At this point, executive branch sentiment is overwhelmingly against such proposals. This sentiment has been made clear in position papers submitted to Congress by such agencies as the Office of Management and Budget and the Postal Service.

Presumably, President Ford, who has come out strongly for more economy in federal spending, would veto a reverse-franking bill if it ever reached his desk.

A spokesman for the House Post Office and Civil Service Committee, which is considering House bills on the subject, says most committee members are convinced that reverse franking "would play right into the hands of special interest groups who already flood Congress with mail."

Members of Congress may make unlimited use of the franking privilege, as long as they stick to official business. At the end of each session, the Postal Service sends a bill to Congress which, in turn, votes an appropriation to pay it.

With two exceptions, all other parts of the federal government, including the White House, are billed for mail bearing their franks. The exceptions: the Internal Revenue Service and the Immigration and Naturalization Service when it sends out alien registration forms.

What do you think? Should you be able to write to your congressmen free?

PLEASE CLIP THIS FORM FOR YOUR REPLY

Kenneth W. Medley, Editor
Nation's Business
1615 H Street N.W.
Washington, D.C. 20062

Should you be able to write to your congressmen free? ☐ Yes ☐ No

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SOUND OFF RESPONSE

The Destructive Impact of Secondary Boycotts

A vast majority of *Nation's Business* readers appear to disapprove strongly of permitting common situs picketing in construction.

The House of Representatives has passed a bill that would permit a single union's pickets to try to shut down an entire construction project, although the union has a quarrel with only one contractor at the project. A similar bill, S. 1479, is under discussion in the Senate.

Nation's Business raised the issue for its readers in its August "Sound Off to the Editor" question, "Should secondary-boycott picketing at construction sites be legalized?" All but a handful of answers are noes.

Secondary boycotts are insidious, says Jack W. Greenway, president, Greenway & Associates, Inc., Bozeman, Mont. "No one union should be able to totally halt major works of any kind," he adds.

Most of the respondents are business people in the construction field.

C.C. Hall, Jr., president, Hall Construction Co., Inc., Grapevine, Texas, says passage of the legislation would be the "worst thing that could possibly happen to the construction industry."

David Davis, vice president and general manager, May Stone and Sand, Inc., Fort Wayne, Ind., sees a major inflation potential. "Construction delays and costs would increase drastically," he says.

"It would spell doom for many contractors who operate an open shop but do most of their work with owners who have union agreements," says Norris Cianchette, president, Main Line Fence Co., Cumberland, Maine. "Legalized secondary boycotts can do nothing but increase costs of construction and decrease production."

F.R. Badeau, Badeau Plumbing Co., Madison, Wis., says that "secondary picketing could literally destroy the construction industry and add untold millions to construction costs."

B.L. Kitchen, B.L.K. Contracting, Inc., Durand, Mich., says: "To legalize secondary boycotting would without a doubt put small contractors out of business."

"Legalizing secondary-boycott picketing would be the beginning of an era of the most shutdowns in construction that we have ever seen," warns Cline L. Mansur, president, Mansur-Daubert-Williams, Inc., Tulsa, Okla. "Large and unwarranted expenses would be the result."

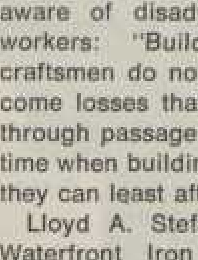
Marion L. Boyett, manager, North Bros. Co., Spartanburg, S.C., reports: "We are one of the last union contractors in this area, and we cannot compete with the open shop contractors now. If this law were passed, it would take more of our rights away. I cannot see anyone wanting to keep other trades from working because of some dispute he is having."

"Building trades unions will drive more and more medium-sized contractors into the open shop area if common situs is signed into law," says August J. Barbier, Jr., vice president, Perrilliat-Rickey Construction Co., Inc., New Orleans.

M.F. Ludowese, vice president, Akron Brass Co., Wooster, Ohio, says he favors allowing common situs picketing in construction, since such picketing is permissible in other industries.

E.J. Troise, Jr., vice president, E.J.T. Construction Co., Inc., Dover, Del., says: "As an open shop builder we employ some union subcontractors with no objection. If this law is passed, we would probably make it a point not to get involved with any union firms in order to avoid work stoppage."

John Alsterda, president, C.A. Metz Engineers, Inc., Chicago, is also aware of disadvantages for union workers: "Building trades union craftsmen do not understand the income losses that they could sustain through passage of this bill—all at a time when building activity is low and they can least afford income losses."



W.L. Norrington, president, Smith and Norrington Engineering Corp., Boston, believes "secondary boycotting would be a disaster for the already depressed construction industry."

Lloyd A. Stefani, vice president, Waterfront Iron Works, Inc., San Francisco, says: "On many of our job sites there is more than one craft in operation at the same time. If one craft is being picketed, I would hate to see my craft or others having to cross a picket line to get to work. For this reason, I am against secondary-boycott picketing."

Pat E. Damiani, electrician, New City, N.Y., is among the few respondents favoring the picketing. He asks: "Why shouldn't I have the same right that workers in other industries do to picket a job that is not fair to me or my brother unionist?"

Bernard M. Brown, president, B-B Lighting Maintenance, Inc., Phoenix, Ariz., says, however, that "secondary boycotting should never be permitted. Labor should have the same responsibility as the contractor. Once the job is started, it should go to completion."

The Case of the Vanished Documents

Can it be that we readers of NATION'S BUSINESS are victims of another Washington coverup?

As you suggested in your April editorial, I ordered from the U.S. Government Printing Office a copy of "Trends in Fiscal Federalism 1954-74," a report by the Advisory Commission on Intergovernmental Relations.

After a 3½-month wait, I was notified by GPO that its "stock of the publication is exhausted, and it is no longer available." My money was cheerfully refunded—in the form of 85 cents worth of coupons good only at GPO.

My initial reaction was that the bureaucrats were deliberately suppressing the truth about government payrolls. However, now that I have had an opportunity to consider the matter further, I wonder if this is no more than an indication of the manner in which GPO typically does business. I still have nothing to show for $27 I sent with another order to GPO Jan. 15.

It is depressing to know that government costs are soaring, but it is infuriating to get nothing more for your tax dollar than indifference and ineptitude. WILLIAM B. HOWELL

Assistant to Vice President-Finance
Trans Union Corp.
Lincolnshire, Ill.

It took more than three months for GPO to tell me the publication was no longer available. There was no indication of whether a second printing was planned. I wonder why.

Instead of getting my money back, I was sent coupons.

Could any business get away with that, especially in these times of consumerism?

HERBERT R. HANDS

Manager, Public Relations
American Society of Civil Engineers
New York, N.Y.

We sent an order for the publication to the Government Printing Office on April 9. Our canceled check came back, but that is as far as we have gotten with our order.

We wrote the Government Printing Office that the check had been cashed, but we had not received the publication. We have received no reply to that letter.

Of course, the 85 cents is nothing. It is the principle involved. We in this country are so bogged down with red tape, government foolishness, and lack of congressional action that it is getting quite frustrating and a little scary. This situation with the Government Printing Office is an example of just one phase of the government's lack of efficiency. A.V. PETRUCCELLI

President
Gas Appliance Service
Seattle, Wash.

[*Editor's Note: The Government Printing Office, in response to a Nation's Business inquiry, says it set aside between 500 and 600 copies of the report for sale through GPO outlets. For reasons that cannot be determined, the copies never reached distribution points, GPO says. As a result of the inquiry, GPO adds, the report has been reordered and will soon be available for sale.*]

A new U.S. amendment?

Re your August editorial, "A New Chance for the Government to Live Within the Taxpayers' Means."

A very simple constitutional amendment would alleviate this problem of deficit spending by the federal government. That amendment should be similar to a section of the Florida constitution that states:

"Provisions shall be made by law for raising sufficient revenue to defray the expenses of the state for each fiscal period."

If state revenues are insufficient to meet authorized appropriations, the governor and the state cabinet must reduce those appropriations.

It is quite obvious that members of Congress will not restrain themselves and keep federal appropriations within tax revenues. Maybe it is time to restrain them by constitutional amendment.

JERRY A. DeVANE
Harden and DeVane
Attorneys at Law
Lakeland, Fla.

There are two myths behind our national spending binge: One is that the United States is endlessly rich. The other is that all good things come from government.

Once these myths are dispelled, the difficult task begins of separating programs that will be funded from those that will not. This task is next to impossible in a system where satisfying everyone's demands is the secret to job security via reelection. Even the most selfless legislator has a job-conscious staff filtering his data and influencing his votes.

Lengthening the terms of office for the President and members of Congress, but limiting them to one term, would reduce tendencies toward a short-term outlook, strengthen the two-party system, and shift energy from reelection efforts to the tough job at hand. We might also see an improvement in the quality of our elected officials if talented people, unwilling to devote a lifetime to government service, could count on no more than one term.

Perhaps the Bicentennial spirit provides a unique opportunity to get the overwhelming public support that will be needed to make this change. It will only happen if business leaders organize and support a group that will gain public support for the concept through advertising, public speaking, and company information programs.

J. PATRICK LOGAN
Director, Nutritional Products
Syntex Laboratories, Inc.
Palo Alto, Calif.

Stockholders' unused clout

Your "Viewpoint" article, "Why Government Neglects the Stockholder" [August], by William S. Mitchell, president of Safeway Stores, properly emphasizes how important it is that every stockholder look critically at all governmental actions or proposals that might adversely affect his or her rights as a stockholder, as a citizen, and as a consumer.

I have wondered why stockholders have not organized to defend free enterprise.

If stockholders as a group of 31 million people demanded a reduction in the size of the federal government and the abolition of such nonproductive agencies as the Occupational Safety and Health Administration, we just might be heard before it is too late.

E.R. THOMPSON
Sherman, Texas

A free enterprise solution

We at Wheelabrator-Frye are most grateful to you and your magazine for the article, "A Free Enterprise Solution to a Tough Public Problem" [August], reporting our initiative in the energy field. I thought you'd like to know that we have ordered reprints for all of our employees.

Your publication is playing a vital role in educating the public on the importance of strengthening our free enterprise system.

MICHAEL D. DINGMAN
President
Wheelabrator-Frye, Inc.
Hampton, N.H.

The Money Crunch for States and Cities

Across the country, officials are coming to a painful realization: Governments have moved beyond the point of financial prudence in trying to solve all of society's problems

BRIDGEPORT, CONN., could not come up with $70,000 to buy the glass needed to replace school windowpanes broken by vandals.

In Atlanta, Ga., city hall considered docking municipal employees a day's pay a month to save $3 million. But Atlanta chose, instead, to cancel all street paving during 1975.

Seattle, Wash., was forced to use a carry-over surplus, plus $10 million in federal revenue-sharing money, to balance its books.

Baltimore, Md., has abolished 2,500 city jobs.

In Vermont, Gov. Thomas P. Salmon has threatened to eliminate the state's anticancer program, shut down state health clinics, and abolish some foster-care payments.

$600 million slash

In Massachusetts, Gov. Michael S. Dukakis has told the legislature to slash $600 million from the state budget or sacrifice 6,000 state jobs and many state services.

New Jersey, according to Gov. Brendan T. Byrne, is in a state of fiscal crisis and, as everybody knows, New York City is flirting with bankruptcy.

Across America, once prosperous state and local governments have come to the moment of truth. They must drastically reduce spending or risk the fate of New York City. More and more mayors and governors are facing these harsh realities of political life:

There is a limit to the volume and variety of services they can provide. More importantly, there is a limit to how heavy a tax burden can be loaded on the public.

"The picnic is over for state and local governments," says the Joint Economic Committee of Congress. "The days of overflowing coffers have vanished. . . . For the next couple of years, tax increases and service cutbacks will be the rule, not the exception."

The committee blames the recession. Indeed, the national economic downturn has wreaked havoc with state and city finances. But many governors and mayors are quick to lay the blame as well on profligate spending, waste, and inefficiency.

Unlike the federal government, now $577 billion in the red, most state and local governments are prohibited by law from deficit budgeting. Forty-seven states, for example, are specifically barred by statutes or their constitutions from presenting deficit budgets.

The alternatives

Today, many states and cities find they must trim spending, in the face of declining revenues, or go the distasteful route of levying higher taxes.

Twenty states are planning to raise taxes this year. On the other hand, 22 states are reducing current spending in order to balance their budgets.

Biting the bullet, Democratic Gov. Daniel Walker of Illinois lopped $535 million from the legislature's spending plans for fiscal 1976, saying:

"In the face of declining revenues, the state has only two alternatives: Cut government spending, or increase taxes. People rightfully expect government to live within its means, to meet declining revenues by reducing spending."

In recent years, state and local governments have enjoyed large but dwindling surpluses—a total of $12.3 billion in 1972, $9.2 billion in 1973, and $1.7 billion in 1974.

But these figures can be misleading. They include money deposited

in social insurance trust funds, namely, the retirement programs of public employees. That money cannot be touched. Excluding these funds, Congressional Research Service says, the cities and states actually had a combined deficit of $7.9 billion in 1974.

President's council cautions

Considering that fact, the President's Council of Economic Advisers saw fit this year to caution:

"Budgetary reserves are now so tight that the rise in state and local expenditures will have to slow considerably to adjust to the reduced growth of receipts, or taxes will have to be raised in a declining economy."

Governors confirm that forecast.

In January, Gov. Dukakis told the Massachusetts legislature: "A few short months ago it appeared . . . [we] would face a budget deficit of between $75 million and $100 million. But we have now discovered that the deficit we face for fiscal 1975 could be as high as $350 million." Actually, the figure turned out to be $450 million.

Meanwhile, Virginia's Gov. Mills E. Godwin, Jr., reported: "Faced with its most serious financial plight since the depression of the 1930's, Virginia is resorting to drastic restraints in spending. . . ."

In February, Gov. Robert W. Straub of Oregon announced that legislators' reluctance to go along with his budget-tightening led him to believe that "the legislature—with my concurrence—will have to increase state income tax rates during the forthcoming biennium."

The litany of financial woe goes on and on.

From surplus to debt

The dilemma of the cities is captured in a single statistic gleaned from a study by the Congressional Research Service: Out of 140 local governments surveyed, 122 entered the current fiscal year with a combined surplus of $340 million and will end the year with a $40 million deficit.

How did these cities and states get

Gov. Michael S. Dukakis of Massachusetts (center) has scrapped many trappings of office to emphasize his determination to cut state expenses. He rides the Boston subway-trolley to and from his office in the statehouse. All state-owned limousines and numerous other official cars have been sold off. Gov. Dukakis even uses his predecessor's stationery to save money.

PHOTO: OWEN FRANKEN—STOCK, BOSTON

themselves into this predicament? Obviously, many committed themselves to spending more than was coming in.

Massachusetts' Gov. Dukakis says two factors are to blame in his state: "We assumed there would always be increased revenues, never expecting the economy to falter. And we have been overly generous with our services."

When Gov. Dukakis, a boyish-looking 41, took office last January, he was not prepared for the shock which greeted him. Looking back, he says, "What we found was appalling. The state was in worse financial shape than any other state in the Union.

"If we had not taken immediate and drastic steps, we would rapidly have become the New York City of state governments."

Heading down the drain

In short, the state was going down the financial drain. Massachusetts, $450 million in the red in fiscal '75, was headed toward an even larger deficit in fiscal '76—for a total deficit of more than $1.2 billion in two years.

Michael Dukakis, a Harvard law graduate and veteran of eight years in the legislature, wasted no time trying to steer the ship of state off the reefs. He immediately cut spending by $70 million. He urged the legislature to trim $311 million out of welfare programs. He eliminated 2,600 jobs.

To prove that he meant business, Gov. Dukakis began taking Boston's trolley-subway to work instead of riding a state-owned limousine. He cut his office staff in half, got rid of limousines, and sold off hundreds of other state autos. State troopers, stripped of their palace guard role in the governor's office, were sent back into law enforcement. Mr. Dukakis continues to use the personal stationery of his predecessor as governor, Francis W. Sargent.

Gov. Dukakis poked into every bureaucratic nook and cranny looking for ways to save money. He found a civil defense unit employing 98 people and cut the staff to 43. He ordered the Fraudulent Claims Board, which investigates phony auto accident claims, slashed from 56 staffers to four.

"We're pulling out of it, but we still have a way to go," Gov. Dukakis told NATION'S BUSINESS. "Unfortunately, both the underestimates of the cost of welfare and overestimates of revenues—which dropped substantially because of the recession—have brought us up short of our budget. That's despite cuts in state spending of $500 million. So we're going back to the drawing board to see where we can cut some more."

Not painless

The treatment is not without pain. At least 1,000 state workers will have to be let go. Cost-of-living pay increases, as well as merit increases, have been shunted aside indefinitely. Welfare assistance will be cut back drastically.

"I've recommended that we eliminate from welfare all ablebodied people who can work," the governor says. "Those eliminated may total 15,000 to 18,000. I'm not doing this to be punitive. But, given our limited resources, I think the blind, the elderly, and children should have first claim."

Gov. Dukakis had built a reputation as a liberal. He is now accused by some of his former backers of being a conservative in sheep's clothing.

"Will all this hurt me politically?" he repeats an interviewer's question. "I don't know. It has made some people unhappy. What other choices do

SOLVING PROBLEMS WITH

Some American cities are not content to stand still in the face of increased costs and declining revenues. These cities are turning to technology and proven management techniques to cope with their problems.

In Covington, Ky., city fathers find the computer a useful tool in negotiating labor contracts. Every union proposal introduced at the bargaining table is run through a computer. The printout shows almost instantly what each demand for pay or extra benefits will cost. The results often suggest alternative proposals which strengthen the hand of the city's negotiators.

A work management program in Riverside, Calif., focuses on measuring the productivity of city employees. It has uncovered and eliminated overstaffing in some departments, wheel-spinning in others. In the public utilities department alone, the program has saved the city $860,000 over a five-year period.

In 1970, it appeared that auto workers were headed for a strike at the big General Motors plant in Saginaw, Mich. If the workers struck, city administrators knew that revenues from income tax and other sources would take a nose dive. They ordered immediate belt-tightening.

All official out-of-town travel for city executives was curbed drastically. City purchasing was cut to the bone. Capital expenditures were shelved. Only emergency overtime was approved. Vacated jobs were left unfilled. The city reduced spending by $89,000 a month, without sacrificing essential services, and survived the strike.

The International City Management Association, with a grant from the National Science Foundation, has been surveying hundreds of city and county governments to see what is being done to meet the money crunch. Often, the communities making a go of it are relying on innovation as a way out of the fiscal forest.

Shorewood Village, Wis., uses a

I have? This is a job where you have to make tough decisions."

Speaking to a group of businessmen, he says:

"All of us who live and work in the state are paying dearly for our past spending habits, and no one is very happy about it. I'm not at all surprised to hear rumblings about businesses leaving the state. If I were a businessman, and I saw no prospect for a change in the way Massachusetts runs its fiscal affairs, I'd probably pack up and leave, too."

Michael Dukakis, once honored by the Americans for Democratic Action for liberal accomplishments, is using a conservative work ethic approach toward curbing a runaway welfare budget. He describes welfare costs as "ballooning beyond belief."

Sending the ablebodied on relief out to seek jobs indicates his determination to straighten out welfare extravagances in Massachusetts.

"I'm a great believer in hard work, and I expect the people who work for me and work for the government to be the same way," he tells one interviewer. "If people on welfare have the capacity to work, then we ought to expect them to work.

"You just can't walk through a school filled with mentally retarded children, for example, and then return to the office and look at millions of dollars spent to support the ablebodied. Some hard budget choices have to be made."

Chip off the old block

Michael Dukakis' strong feelings about the virtues of work apparently were inherited. His father, Panos Dukakis, was a Greek immigrant who worked as a laborer in a textile mill to help pay his way through Harvard Medical School. Today, Dr. Panos Dukakis is a Boston obstetrician.

Gov. Dukakis is convinced his state can put its fiscal house in order, but only if the state government is made lean, taut, disciplined, and efficient. He says:

"If we are going to make any real headway in this fight, we must come to grips with two key issues.

"First, we must rethink the role of state government, taking into account its limitations and defining its priorities. Second, we have to make some major improvements in the efficiency of state government."

Escalating pay of public employees has put many local and state governments in financial straits. Often employees have won these pay hikes by strikes or the threat of strikes.

Mayor George G. Seibels, Jr., of Birmingham, Ala., where some 1,000 city employees walked off their jobs for 29 days this summer, says:

"We have reached the end of the line, and other cities have reached the end of the line. And the person causing this . . . is your civil service worker. When a high school girl who can hardly find the bathroom . . . starts to work at $450 a month and is close to $600 in three years, that's not modest pay. Don't shed any crocodile tears for public employees."

Under a ceiling

New Jersey is one of the states whose constitution bars it from deficit budgeting. The state operated in the black in the past fiscal year, but only because Democratic Gov. Byrne made what he called crisis cuts in spending. He slashed $384 million from the budget.

Speaking before the legislature last June, he warned the lawmakers that they had only two alternatives: Cut their spending requests or raise additional money with new or increased taxes.

He said:

"We are not talking about trimming a budget; we are talking about taking a hatchet to it to make it fit

TECHNOLOGY AND HORSE SENSE

trade-off between productivity and wage demands in labor negotiations. For example, the city recently offered police and firemen two options:

- A 7½ percent wage hike with a pledge to consider an additional increase later if the employee union would agree to a study on how to boost productivity.
- A larger one-shot pay hike if the union would delete certain featherbed provisions in the old contract.

In Eugene, Oregon, lighting engineers checked streetlights and found Eugene could be just as safe with lamps of lower intensity. The city is saving money as a result.

To get the best prices possible and to ensure delivery of scarce items, Kansas City, Mo., has signed five-year supply contracts with many of its vendors. This has benefits for both the city and the supplier. The supplier is assured a long-term market and prompt payment. The city has the right to make an annual price review, with the supplier agreeing to meet the lowest competitive price or to forego the contract for one year. The supplier also agrees to ensure a favorable status to the city if a commodity is in scarce supply.

Four California cities—Anaheim, Fresno, Pasadena, and San Jose—are trying to apply aerospace technology to the solution of urban problems. During the past two years, these cities have borrowed teams of experts from Rockwell International Corp., TRW, Inc., Northrop Corp., Aerojet-General Corp., and Lockheed Aircraft Corp.

These problem-solving teams were put to work on a variety of city challenges including noise control and how to improve firefighting services.

In Alabama, Auburn University has a similar program. The school has assigned two of its aerospace engineers to two Alabama cities, Anniston and Geneva. The university hopes to help these communities solve their problems with the research expertise developed by Auburn faculty members.

PHOTO: STEPHANIE MAZE—SAN FRANCISCO CHRONICLE

Gov. Edmund G. Brown of California, in a gesture of austerity, has moved out of the $1.3 million gubernatorial mansion into this modest apartment building.

the $2.4 billion in anticipated revenues from our present sources."

Even so, the governor will have trouble balancing his budget. The New Jersey Supreme Court has ruled that the present system of financing public schools is unconstitutional. The state, the court said, must contribute more to the support of the schools. The judges' ruling means that New Jersey must find $321 million more this year for the school system. In addition, the state must raise an extra $412 million to cover other spending.

The legislature has turned a deaf ear to Gov. Byrne's plea for a state income tax or for tax reform in general. Property taxes, for example, are horrendous in New Jersey. The owner of a house in Newark with a market value of $65,500—and an assessed value of $49,000—gets whacked $5,000 in annual property taxes.

Gov. Byrne warned the legislators that they will have to answer to voters if property taxes are pushed even higher or if he is forced to cancel essential state services for lack of money.

He also admonished lawmakers not to come up with fiscal gimmicks, such as nuisance taxes, to bring the budget in balance. He said:

"The nuisance taxes being discussed would fall most heavily upon business—which can ill afford to bear that added burden in the present economy—and upon low and middle-income families who are least able to bear any larger share of our common tax burden."

Austerity in Georgia

In Georgia, Democratic Gov. George Busbee went on statewide television to detail his plan for cutting $108 million from a $2 billion state budget. Georgia's problem is similar to New Jersey's. The budget was drafted at a time when the economic outlook was good and the state had a fiscal surplus. The governor's prescription would be a bitter pill for many to swallow: No cost-of-living pay raises for teachers and state employees, postponement of a property tax rebate, and other austere measures.

When the Georgia legislature finished its work on the new budget, the governor had his way. But it meant pruning spending proposals by $124.8 million.

As part of the belt-tightening, $15.9 million was cut from welfare medical programs. In addition, the governor announced plans for removing 21,000 people from the welfare rolls.

Other governors have joined Massachusetts' Gov. Dukakis in eliminating costly trappings of office to emulate the tone of austerity they have set for the state.

Out of the mansions

Democratic Gov. Patrick J. Lucey of Wisconsin, who has ordered state spending lowered by $4.5 million, is an example. He moved out of the governor's mansion to more modest quarters. That saved taxpayers $50,000 a year.

California's Democratic Gov. Edmund G. Brown, Jr., has given up the state mansion in Sacramento. Gov. Brown, like Gov. Dukakis, has surprised and disappointed his liberal supporters by curtailing state spending. He has chopped $200,000 a year off his office budget and made sharp reductions in many state programs.

Republican Gov. Robert D. Ray of Iowa warns that government has moved beyond the point of financial prudence in trying to solve all of society's problems. He says:

"We must learn to say no. Cause after cause has been presented to me—each one with a price tag on it. We cannot pay for all the government some of us would like to have. We must continuously ask: How much government can people afford?"

Some governors want to raise taxes to cover rising operating costs or to initiate and expand programs. Others are adamantly opposed. As Gov. Walker of Illinois views the matter:

The Money Crunch for States and Cities *continued*

"In time of economic trouble, it is wrong for government to increase taxes. Millions of Illinois citizens have already tightened their belts to the point where it hurts. People don't want a tax increase, and I am opposed to one. I will neither seek nor approve a tax increase."

In its survey of state and local government finances, the Joint Economic Committee found that taxes at the state and local levels are being increased $3.6 billion this year, services are being cut $3.3 billion, and $1 billion worth of capital construction is either being delayed or canceled.

A curse—or a cure

Rep. William S. Moorhead (D.-Pa.), chairman of the joint committee's subcommittee for urban affairs, sees this as "terribly damaging to the economy. Clearly, we must find some method for stabilizing state and local government budget actions so that we can have all levels of government working together on one consistent and coherent fiscal policy."

Other experts, including prominent economists, take an opposite view. They say that the twin evils of inflation and recession will never be whipped until massive deficit spending by government is brought to a halt.

The Joint Economic Committee survey found that tax increases or spending cuts were concentrated in states hard hit by the recession. The picture was far different in the farm belt and in those states where oil, gas, or coal abounds.

Thirteen states rich in these energy-producing natural resources entered the fiscal year with a combined surplus of $2.1 billion. Only four are considering tax increases, and two have been able to reduce taxes.

Similarly, eight states whose wealth comes mainly from farming were also in a solid financial condition, the committee found. These states began the fiscal year with a combined surplus of $1.1 billion. Declining prices for farm products, however, were expected to cut sharply into state revenues and surpluses. Although two of these states are cutting taxes slightly, four are raising them.

Some states rich in oil, gas, or coal illustrate what it means to be so blessed.

In the fiscal year ended June 30, Oklahoma wound up with a surplus of $80.8 million. Gov. David L. Boren, who took over the statehouse last January, was then able to put through the first state tax reduction in 27 years. Income taxes were cut almost $14 million. In addition, Oklahoma paid off $32.4 million in bonded indebtedness 15 years ahead of schedule.

"We're fortunate to be in this position in Oklahoma, but I still intend to hold the line on spending," says Gov. Boren.

Coal-producing West Virginia came up with a $101 million surplus last fiscal year. Louisiana, its offshore wells pumping black gold, was able to finance $100 million in capital construction with its surplus funds.

This stands in stark contrast, of course, to the dismal scenario being played out in other parts of the nation, especially the industrial cities of the North and Northeast.

In Buffalo, N.Y., where 105 major industrial and commercial businesses have shut down since 1968, $65 million is being shelled out in unemployment compensation this year and $135 million in welfare benefits.

Cleveland, Ohio, is unable to hire needed police and firemen.

Hartford, Conn., was forced to lay off 14 percent of its city work force —400 employees.

Learning a lesson

The lessons of New York City, and of other local governments which have lived beyond their means, are not lost on the nation's mayors and governors.

Gov. Salmon of Vermont pointed to the solution when he told the National Governors' Conference in New Orleans last summer:

"We have a new breed of governors—people who are younger than in the past, who aren't afraid of hard work, and who have developed a variety of innovative approaches to government.

"But, unlike the federal government, we cannot print money, and in many states we cannot consciously program a deficit." END

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The Threat to an Export Program That Works

Exports of FMC Corporation's airline equipment division, such as this loading device in use overseas, have risen 500 percent since 1971. DISC tax provisions have helped FMC to compete against foreign manufacturers.

As the House Ways and Means Committee considers new tax legislation, the DISC program—which has boosted exports and stepped up employment in this country—may be headed for trouble

EXPORT SALES OF the FMC Corporation, of Chicago, have increased by 40 percent a year for the past three years. Prior to that, the growth rate was 11 percent a year.

Helping to make the difference, according to Robert H. Malott, chairman of FMC, was the enactment in 1971 of legislation which launched a program known as DISC.

Mr. Malott points out that his company's exports amounted to $296 million last year, compared with $101 million in 1971. DISC, he says, has been a major factor in making this kind of increase possible.

Other companies, because of DISC, have also been able to boost export sales. That was the reason DISC was enacted—to export goods, not jobs, and to create extra jobs in this country rather than abroad.

Although DISC has served its purpose well, it is under review on Capitol Hill, where it has come in for criticism as well as praise. Watch for DISC to be talked about more during the fall and winter months.

How DISC works

DISC is short for Domestic International Sales Corporation. The program is authorized by a tax provision of the Internal Revenue Act of 1971.

Under this act, a domestic firm engaged in foreign trade—or intending to be so engaged—is permitted to organize a Domestic International Sales Corporation. A unique thing about a DISC is the fact that, although it is a profit-making corporation, it may defer a portion of its in-

come tax under certain conditions. That's the incentive the government provided, when the act was passed, to encourage more companies to engage in export sales.

Shareholders in a DISC are treated as receiving half of the DISC's earned income, if any, and they are taxed on that amount.

The exporting company concerned is permitted to defer the income tax on the other half of the earned income, with the provision that the DISC must reinvest the money in export business.

Fulfilling DISC's purpose

Specifically, to qualify for this arrangement, 95 percent of the gross receipts of a DISC must come from exports and at least 95 percent of the DISC's assets must be export-oriented.

The DISC program increases U.S. exports and improves the U.S. balance of payments by putting the American exporter on a more equal footing with his foreign competitors.

The concept makes it possible for the American firm to compete more effectively in the world market with goods produced in its own plants here in this country—and not to have to try to improve its competitive position by building plants in foreign countries to turn out the same sort of products.

This, of course, has the additional advantage of creating job opportunities in this country.

In the true sense, then, the objective of the DISC concept is to export goods, not jobs.

A Department of Labor survey reported that, for 1972, more than 2.9 million jobs were directly related to the production and distribution of exported merchandise. The survey noted that each billion dollars' worth of exports in 1972 involved 72,000 jobs. The more exports, the more jobs.

AMERICAN WORKERS' STAKE IN EXPORTS

What do exports mean to employment in the United States?

Reginald H. Jones, chairman of General Electric Co., says that 36,475 GE jobs are directly related to exports and that jobs at GE suppliers which are tied to his company's exports total 43,833.

Thus, 80,308 U.S. jobs at or depending on this one company exist because of exports.

For the nation as a whole, Mr. Jones says, more than eight million jobs now depend on international trade, and each additional $1 billion in exports creates 60,000 jobs.

Last year, export-related jobs amounted to 11.9 percent of GE's employment in the U.S., Mr. Jones says. In 1970, they amounted to 6.1 percent.

Here are figures indicating DISC has proven to be successful in increasing U.S. exports:

- In 1972, U.S. exports expanded to $48.4 billion, an increase of 13 percent over 1971 exports.
- In 1973, exports expanded to $69.7 billion, an increase of 44 percent.
- In 1974, exports expanded to a high of $96.5 billion, an increase of 38 percent.

While all this was happening, our country's share of world exports of industrialized nations declined, but then rose again. In 1972, the U.S. share of the world market went down from 18.9 percent to 18 percent. In 1973, the U.S. percentage recovered to 19 percent, and in 1974 it rose to 19.6 percent of the world total.

Hearings held

Despite the many benefits accruing to American companies, stockholders, and workers—and despite the advantages to the economy—Congress has held hearings on the DISC program with the possibility of altering or even abolishing it.

Rep. Sam M. Gibbons (D.-Fla.) seeks to end DISC with a bill before Congress which states: "No corporation shall be treated as a DISC for any taxable year after June 30, 1975." Rep. Gibbons is a member of the House Ways and Means Committee, which is considering the fate of DISC.

He calls DISC a costly mistake and says that the tax forgiveness it provides exporters "goes to some of the largest, most financially sound U.S. corporations." He adds: "A federal task force report notes some evidence that DISC's have been twice as profitable as the average firm."

Rep. Gibbons also says: "Claims that DISC would help small exporters have been thoroughly discredited."

Now that Congress is having a look at DISC, Rep. Gibbons says, "we find it wanting. Both as a tax subsidy and as a subsidy to exports, it is completely without justification. It is unfair to nonexporting businesses, to the American consumer, and to the average taxpayer."

Rep. Charles A. Vanik (D.-Ohio), also a member of the Ways and

Means Committee, accuses the Treasury Department of originally turning out "remarkably inaccurate estimates of the cost of DISC" to the federal government. He claims that, in 1971, "Treasury told Congress that in the first year DISC would cost only $100 million. It actually cost $250 million. For the second year, Treasury estimated the revenue loss at $170 million; the actual loss was $870 million."

In support of DISC

The two ranking Republican members of the Ways and Means Committee are supporting DISC. They are Herman T. Schneebeli (R.-Pa.) and Barber B. Conable, Jr. (R.-N.Y.).

Rep. Schneebeli says: "I am sympathetic to the present tax treatment of DISC because it helps to stimulate the export of American goods. Export levels have risen substantially in recent years and provide an estimated eight million or more American jobs.

"Admittedly, DISC faces serious problems in the present Congress. The tax expenditure costs of DISC have risen to a level far above that originally projected when the DISC provisions were passed. Many members of Congress feel that the revenue cost of DISC is out of all proportion to the benefits which are received from this so-called tax break."

Rep. Schneebeli adds that, in his opinion, there is substantial likelihood that DISC provisions might be restricted during the current Congress.

Rep. Conable opposes the unilateral elimination of DISC. "Our competitors are aware of its advantages to us," he says, "and they would be willing to negotiate reduction of the subsidies through which they encourage their own export trade, in return for elimination of DISC.

"Thus, even if it is an unjustified tax subsidy, Congress should not throw it away, but should use it as a chip in the international poker game [trade negotiations] now going on in Geneva.

"I am by no means convinced that DISC is an unjustified tax subsidy in any event. It is the one element in the tax law encouraging domestic manufacture for export as a suitable alternative to the creation of the foreign subsidiary. That means domestic jobs, as well. Properly designed, it can be an equalizer for the small company which otherwise could not afford to participate in the expanding markets overseas."

Rep. Conable says DISC should undergo careful statistical analysis "before we kill a goose that just may be laying a golden egg."

Secretary Simon's view

William E. Simon, Secretary of the Treasury, recently defended the DISC program before the Ways and Means Committee. "In a period of capital shortage," said Mr. Simon, "the DISC provides significant cash flow for domestic investment, and its elimination must be viewed simply as an increase in taxes of those companies which are trying the hardest to manufacture and export from this country at a time when employment is down and investment capital is badly needed.

"We have just commenced the multilateral trade negotiations in Geneva which we are hopeful will lead to international examination of tax incentives for trade and investment. Repeal of the DISC prior to seeing the direction that those negotiations will take could prejudice our prospects for obtaining fair and uniform tax rules. DISC has been in place only two and a half years, and it is too early to assess its effects on exports and employment. All that we know for sure is that exports have increased very greatly over that period."

Business community stand

In a statement on tax reform in behalf of the Chamber of Commerce of the United States, Walker Winter, Chicago attorney, told the Ways and Means Committee that although DISC is relatively new, many companies already have set up DISC's, built plants in the U.S., and employed Americans rather than locating facilities abroad.

Mr. Winter, partner in the law firm of Ross, Hardies, O'Keefe, Babcock, and Parsons, said further: "Although it is too early to give concrete results, it is certain the DISC provisions have significantly contributed to U.S. jobs directly and indirectly

Does the Boggle have a case on you?

The LEKTRIEVER® 600 mechanized file can turn it into a case history!

If you have an active, moderate-sized office using a conventional filing system, chances are the Boggle finds you irresistible.

Decentralized or overcrowded files give the Boggle plenty of opportunities to carry on his love affair with your vital, active records. A Boggled filing system wastes time and space...and can cause costly, embarrassing mistakes.

The LEKTRIEVER 600 is a modern **electric lateral file,** specially designed for busy offices with moderate file volume. In fact...it may be the only file you need! It holds as much as six conventional four-drawer cabinets (600" of filing space) in a single, compact, attractive unit.

The LEKTRIEVER 600 centralizes your records within easy reach. Records are delivered within seconds at the push of a button. No more bending, stretching or searching! It arrives fully assembled, plugs into any 110-120 volt outlet, and is simple and safe to operate.

The LEKTRIEVER 600 mechanized file has brought many of the Boggle's love affairs to an abrupt end...and we have the case histories to prove it! Use the coupon below to tell us about the "bugs" in your filing system, and we'll show you how the LEKTRIEVER 600 has helped solve a similar problem. And who knows...we may be writing our next case history about **you!**

SPERRY REMINGTON
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Blue Bell, PA 19422

Please send a case history describing how the LEKTRIEVER 600 mechanized file solved a filing system problem similar to ours. I understand I am under no obligation.

Type of office ____________

Our biggest filing problem ____________

____

Name ____________

Company ____________

Address ____________

City ____________

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SPERRY ✦ REMINGTON
OFFICE SYSTEMS AND MACHINES

SPERRY REMINGTON IS A DIVISION OF SPERRY RAND CORPORATION

1976 CHEVY TRUCKS. YOUR MONEY'S WORTH. MILE AFTER MILE AFTER MILE.

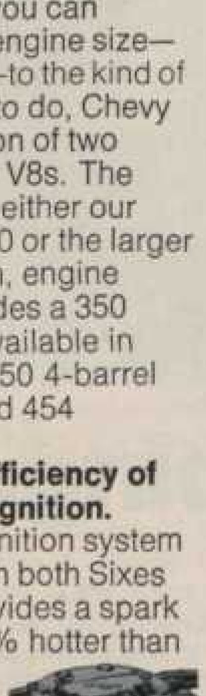
You get your money's worth in a Chevy truck—from the time you buy until you're ready to trade; from a tough truck build that pays off mile after mile after mile.

You get the value of a wide selection of engines.

Engines are the key to truck operating efficiency. Settling for too little power can be just as wasteful as specifying too much. So that you can closely match engine size—and efficiency—to the kind of job you intend to do, Chevy offers a selection of two Sixes and four V8s. The standard Six is either our dependable 250 or the larger 292. In addition, engine selection includes a 350 2-barrel (not available in California), a 350 4-barrel V8 plus 400 and 454 4-barrel V8s.

You get the efficiency of High Energy Ignition.

High Energy Ignition system is standard with both Sixes and V8s. It provides a spark that's up to 85% hotter than a conventional system. There are no points to require periodic maintenance and no ignition condenser to wear out. The result is a system that extends time between tune-ups and helps improve ignition performance.



You get the efficiency of extended maintenance intervals.

Chevy has made dramatic improvements in operating economy over the past three years by extending the time intervals between recommended spark plug, oil and filter changes on models rated under 6,001 GVW. The result could save you hundreds of dollars over the life of a '76 Chevy compared to a comparable model that's three or more years old. The chart below tells the story.

Comparison based on recommended maintenance intervals for a 1973 Chevy pickup, rated under 6,001 GVW, and those for a comparable 1976 model.

3-year-old trade-in		1976 Chevy
4 mo. or 6,000 miles	Engine oil	6 mo. or 7,500 miles
First 6,000 miles. Every 12,000 miles thereafter.	Oil filter	First 7,500 miles. Every 15,000 miles thereafter.
Sixes: 12,000 miles V8s: 24,000 miles	Air cleaner element	30,000 miles
6,000 miles	Spark plugs	22,500 miles
4 mo. or 6,000 miles	Chassis lube	6 mo. or 7,500 miles
Every 24,000 miles	Auto trans. fluid and filter	Every 60,000 miles

You get the durability of double-wall construction.

For rigid, overall strength, Chevy uses two walls of steel in many critical areas. You'll find double-wall construction in the doors, the upper cab panel, windshield pillars and front cowl, even in the roof. You get the same double-wall build in the hood, front fenders and Fleetside body side panels and tailgate.

You get Chevy's smooth riding suspension system.

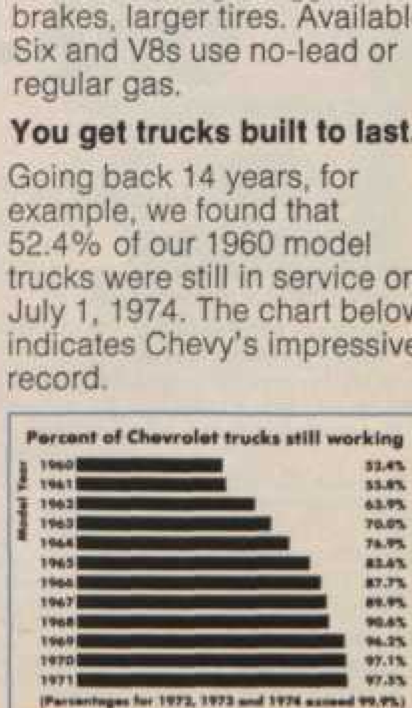
It includes a Massive Girder Beam front suspension with coil springs on conventional models, 2-stage multi-leaf rear springs with rubber bushings and counter-angled rear shock absorbers.

You get special advantages with Chevy's BIG-10 Pickups.

Use one as a heavy-duty half-ton or a light-duty ¾-ton. BIG-10 Pickups have GVW ratings of 6,050 or 6,200 lbs. Special equipment includes heavy-duty front and rear springs, bigger brakes, larger tires. Available Six and V8s use no-lead or regular gas.

You get trucks built to last.

Going back 14 years, for example, we found that 52.4% of our 1960 model trucks were still in service on July 1, 1974. The chart below indicates Chevy's impressive record.



R. L. Polk & Co. 7/1/74

One-stop Shopping.

Now there's a new easy way to buy all your business insurance.

It's called The Insurance Store.

It can save you time. Save you money. And assure you the correct coverage.

Business Insurance for Every Business Need.

Maybe you've never thought of buying business insurance at a store.

But it can make all the sense in the world.

Because with one stop at The Insurance Store, you'll find every kind of business insurance. Including property, liability, marine, aviation, crime, surety, fleet auto, boiler and machinery, and workmen's compensation coverage.

Your Choice of Insurance Companies, Policies, and Prices.

At The Insurance Store, you'll also find a wide variety of insurance companies. Including Continental Insurance, the company known for its claims service.

And you'll find a wide variety of insurance policies and prices.

So whatever you need—when you shop at The Insurance Store, you can select. You don't have to settle.

Professionally-trained Insurance Experts.

Best of all, you don't have to be an insurance expert when you shop at The Insurance Store. Because the people who work there are.

They're trained professionals who know business insurance inside and out.

To begin, without obligation, they'll survey your risk exposure.

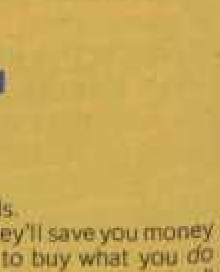
Then, they'll help you choose the specific insurance companies and coverages that match your needs.

And, quite often, they'll save you money by showing you how to buy what you *do* need—without buying what you *don't* need.

Over 16,000 Locations to Serve You.

To find your nearest Insurance Store, just check the Agent listing under Continental Insurance in the Yellow Pages.

Need insurance?
Shop and save at
The Insurance Store.



Continental Insurance
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Threat to an Export Program That Works *continued*

related to our exporting industry."

DISC helps American-domiciled exporters who do not get tax deferrals available to foreign subsidiaries of U.S. corporations, Mr. Winter said. DISC also helps domestic exporters competing against foreign exporters who do get liberal tax benefits from their governments. DISC allows firms that are too small to operate through foreign subsidiaries to enter the export field, Mr. Winter said.

David C. Garfield, vice chairman of Ingersoll-Rand Co., testified before the committee in behalf of the Special Committee for U.S. Exports, which was formed by 300 major U.S. firms. He listed facts endorsing DISC: 7,300 DISC's had been formed as of last February; 41 percent of all U.S. exports in 1973 were DISC-related; up to $9 billion of 1974 exports occurred because of DISC.

Impact on employment

The sale by the FMC Corporation of a $500,000 sewage-treatment plant to a firm in Taiwan illustrates DISC's impact in real terms. The sale would not have taken place, FMC says, without DISC.

The impact, though, is more than a single sale. FMC is one of the most highly diversified of the 100 largest American manufacturing companies. It formed a DISC in 1972. In 1971, FMC had 3,584 employees producing for export; today, the company has 6,781 employees engaged in export activities.

FMC Chairman Malott said in a recent letter to Rep. Al Ullman (D.-Oregon), chairman of the Ways and Means Committee: "We submit that the experience of FMC Corporation can be considered fairly typical of American industry. The dramatic results speak for themselves, and I am convinced DISC has played a material role in our recent success.

"FMC has benefited significantly from DISC, as have our 50,000 employees, the economies of 33 states in which we operate, and our supplier companies. With FMC's experience multiplied by the hundreds of business firms employing DISC, it is readily apparent that the provision has been a great asset to the entire American economy." END

Inflation and lack of concern about energy problems are most discouraging to Joe L. Gremban, president of Sierra Pacific Power Co., Reno.

A rapid business recovery during the last quarter of the year is predicted by Edward G. Nelson, president of Nashville's Commerce Union Bank. One reason: Buying to restock inventories.

THE OUTLOOK NOW

Good News Ahead for the

A Nation's Business survey shows a high degree of optimism among businessmen about their firms' sales and profits as well as about the direction the U.S. economy is taking

DESPITE THE RECESSION which dogged the start of 1975, most businessmen are optimistic about the outlook for the economy and profits.

Three out of four executives who responded to this magazine's latest quarterly survey see business activity continuing the rise that began last spring.

Nearly two out of three believe that their companies' sales this year will equal or exceed last year's. More than half expect their firms' 1975 profits to be as good as those last year—or better.

In 1974, corporate sales hit a record $2.4 trillion and net profits hit an all-time high of $85.4 billion.

Here's how those polled reply to the question, "How will your 1975 sales end up? Higher or lower than 1974?"

Higher:	52.5 percent.
Lower:	37.5 percent.
About the same:	10.0 percent.

Consumers lack confidence in the economy, says Chris Hammond, chairman of Great Dane Trailers, Inc., Savannah, Ga. He feels that's a negative influence.

Higher sales and better profits for his own company, plus an upswing in the economy—that's the forecast of Sarkes Tarzian, president of Sarkes Tarzian, Inc., Bloomington, Ind.

Both business and consumers have more confidence in the economy, says Lorna Mills, president of Laguna Federal Savings and Loan Association, Laguna Beach, Calif. She predicts an upswing in the last quarter.

Economy

Responses to the question, "How will profits compare to last year?" stack up this way:

Higher:	40.0 percent.
Lower:	42.5 percent.
About the same:	17.5 percent.

Labor and unemployment

Here's how opinions run on other questions in the survey:

• "Did your labor costs increase in 1975?"

All but a handful of executives say their labor costs did rise. More than half say the increase was substantial.

• "Where do you think unemployment on the national level will stand at the end of 1975? Up, down, or stay about the same?"

Only a few expect unemployment to go up. Most say unemployment will either stay about the same (44.5 percent) or decrease (40.5 percent). Fifteen percent expect it to rise.

• "Did you increase or decrease in capital investment in 1975?"

Forty-one percent say they cut capital spending, 40.5 percent say they increased it, 18.5 percent say it was unchanged.

• "Are you satisfied with the administration's efforts on the inflation front?"

Six out of ten say yes.

What encourages them

"What is the most encouraging aspect of the economy?" the survey asked. Answers range widely, with these responses among the more common:

Debt reduction by consumers.

Growing consumer demand.

Inventory liquidation.

Added capital in banks and savings and loan associations that is available for lending.

Lower unemployment.

A healthy farm economy.

Federal Reserve curbs on growth of the money supply.

The general pickup in business.

Increasing production per man-hour.

Resiliency of the American people.

The final question was: "What is the most discouraging aspect of the economy?" Here again, answers vary. Some executives cite more than one source of gloom.

Many respondents mention the continuing high inflation, the nation's apparent indifference to the energy shortage, fears of future sharp inflation, and higher wages.

Others cite too much short-term government stimulation of the economy, reckless spending by Congress, large national deficits, and prospects of higher oil prices.

Respondents also point to the high cost of meeting government regulations and standards, and Congress's apparently incurable disposition to

penalize business and to clamp on it more federal controls.

The high rate of unemployment concerns many, while still others are discouraged by the conflict between Congress and the Ford administration.

Energy sales up

Donald C. Cook, chairman and chief executive officer, American Electric Power Co., Inc., New York, says he looks for the "modest recovery under way" to continue in the final quarter. He believes his company's revenues will be about three percent higher in 1975 than in 1974, but he expects profits to remain about the same.

Louis B. Perry, president, Standard Insurance Co., Portland, Oregon, says the nation's economy will continue upward due to a "backlog in housing, increased consumer confidence, [and] a pickup in durable goods expenditures." He says his company's labor costs have increased "substantially as a result of adjustments in 1974." Its sales in 1975 will be higher than last year, he believes, while profits will be "at least the same."

K.M. Knopf, chairman, Pako Corp., Minneapolis, hangs his hopes for continued recovery on the automobile industry. He expects the economy to improve because Detroit "finally recognizes the demand for intermediate to smaller autos." In 1975, his company's sales and profits will be higher, he says, as are its labor costs and capital investment.

Marshall McDonald, president, Florida Power & Light Co., Miami, is optimistic on nearly all counts. The nation's economy will "rise slightly," he says, "because the President has withstood the pressures of liberal politicians to push measures which would temporarily relieve unemployment but would be inflationary." His utility's revenues and profits will be higher than in 1974, but capital spending has decreased.

Lonnie W. Wege, a vice president of Cities Service Gas Co., Oklahoma City, predicts the economy will pick up slightly as consumer confidence gradually improves. Because of higher prices, he expects his firm's sales to drop, but its revenues to increase.

Francis E. Ferguson, president of Northwestern Mutual Life Insurance Co., Milwaukee, sees a healthy, slow recovery, rather than a skyrocket rebound which could fizzle.

Its profits will be up over 1974 and its labor costs are up "substantially." Unemployment will be about eight percent at year-end, he says, adding: "It would be lower if welfare benefits didn't compete with wages for lower paying jobs."

The bright side

William R. Schantz, Jr., treasurer, Colgate-Palmolive Co., New York, is optimistic about the business outlook. The economy will move up, he says, "due to sizable reduction in inventories at both retail and wholesale, with some improvement in consumer spending." Colgate-Palmolive sales and profits will be higher, its labor costs are up only slightly, and national unemployment will remain about the same, he says. His firm's capital spending will show a "slight decrease in real terms," but an "increase in current dollars."

William F. May, chairman, American Can Co., Greenwich, Conn., looks for a slightly improved economy and bigger dollar volume for his company but lower profits. He reports a substantial increase in American Can's labor costs, and forecasts unemployment of about 8.5 percent.

Walter B. D. Hickey, Sr., president, Hickey-Freeman Co., Rochester, N.Y., believes business will continue to improve in the last quarter of 1975. He expects disposable income to be higher and the public to begin to spend. As a result, he feels, inventories will need replenishing. His outlook for his own company, however, is less optimistic. He sees sales and profits down.

Some contrary views

James E. Griffin, president and chief executive officer, Central Vermont Public Service Corp., Rutland, Vt., says he believes the economy will level off. He sees "no strong indications that it will go up, or down." His own company will have higher revenues than in 1974, he says. He expects "somewhat better profits than 1974," and reports only "a moderate increase" in labor costs compared to increases in the cost of living. His utility's capital spending this year will be less than in 1974.

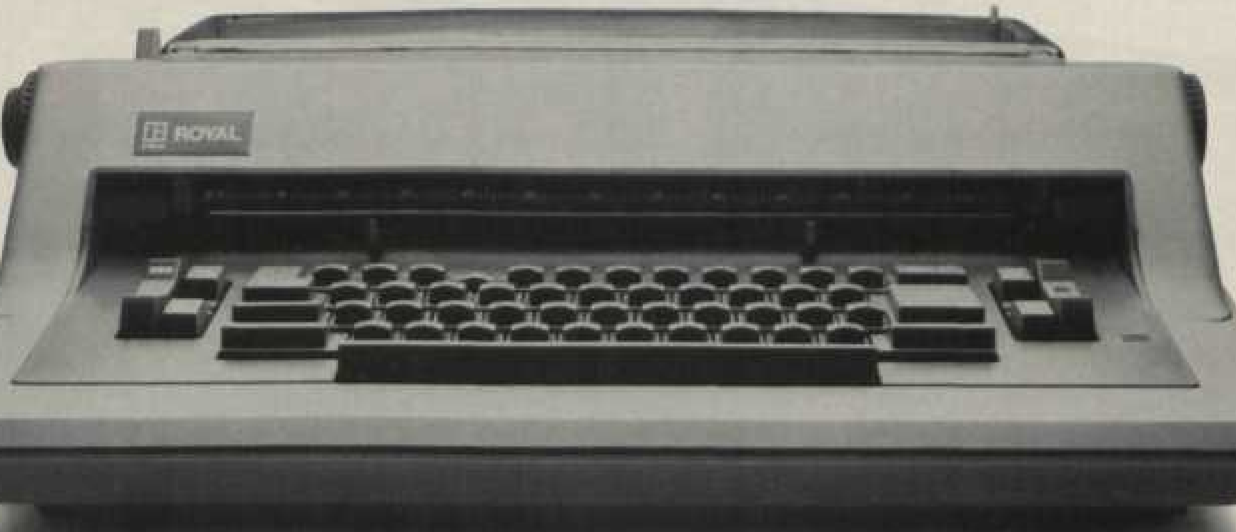
Nathaniel G. McLean, president, Dunn Paper Co., Port Huron, Mich., believes the economy will "go up in dollar terms, but not much in real terms, as inflationary forces again become a factor." His company's sales will be lower than last year, and its profits "disastrously lower." Its labor costs are "substantially" higher. The company's capital spending this year has increased above 1974.

Irwin N. Pincus, president, Pincus Brothers-Maxwell, Philadelphia, sees little to cheer about. He expects the economy to "continue downward." Sales and profits for his company will be lower and labor costs are slightly higher.

Eugene C. Zorn, Jr., economist and senior vice president, Republic National Bank of Dallas, sums up his views this way:

"The fourth quarter will disappoint many of us. The momentum produced in recent weeks by the tax stimulus is likely to be lost. Its effects have been largely to increase consumer spending on nondurables and services and to bid up prices on them. The inflation imbalances in such key sectors of the economy as housing and other construction, autos, and public services will exert a drag that will take some time to correct." END

The Royal 5000...



a whole new ball game.

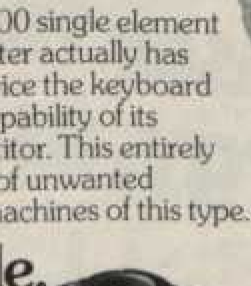
It's faster.

The Royal 5000 single element office typewriter actually has more than twice the keyboard entry speed capability of its leading competitor. This entirely eliminates the "flicking" (printing of unwanted characters) that plagued earlier machines of this type.

It's easier.

There are 9 repeat functions to speed typing: Independent space-up, independent space-down, underscore/hyphen, X, period, space, back space, line space at left margin, and tabulation. And an improved page end indicator and wide-range touch control make typing easier still.

It's more versatile.



This is the world's first 4-way electric typewriter. The operator may move the printing point any number of spaces in *any* direction ...without taking hands off the keyboard!

It's quieter.

Simplified engineering, lavish use of sound deadening material and a sophisticated spring-mounted chassis greatly reduce noise and vibration.

Litton ROYAL

The Royal 5000: It had to be better.

See your Royal representative or check the Yellow Pages for your nearest Royal dealer.

Join the group of savers...

This 33,000 sq. ft. food store, one of Red Owl's 350 corporate and franchise stores in the Northern Midwest, was the first to be selected by Don Callahan, Red Owl's Manager of Store Construction and Maintenance, for group relamping with GE F40 Watt-Misers. This suburban Minneapolis store, by using 1988 F40 Watt-Misers, will reduce its annual electric bill for lighting by almost $1,900, based on the chain's 3.6¢/KWH power rate.

This office area of General Foods in White Plains, New York, is part of a group relamping program incorporating 7000 GE F40 Watt-Misers. At a nominal 7¢/KWH, General Foods can look forward to an annual reduction of $7,350 in electricity costs, or about $22,000 over their 36-month group relamping cycle.

Every lighting installation GE's F40 Watt-Miser fluorescents conserving energy, as well.

By group relamping 835,000 sq. ft. of office area with 40,000 F40 Watt-Miser fluorescents, Blue Cross Headquarters in Detroit anticipate they will reduce their annual electricity costs by $22,000. With escalating energy costs, these savings could easily exceed $88,000 over the Blue Cross 48-month relamping cycle.

F&R Lazarus & Co., in Columbus, Ohio, in their Northland Branch expansion and modernization program, now in progress, will use 1212 4-lamp fixtures. At Lazarus' 2.7¢ energy rate, GE Watt-Misers will contribute an estimated annual cost reduction of almost $3,016 in electricity used for lighting.

here was group-relamped with ...they're paying off fast and

Try them and you'll see.

F40 Watt-Misers use up to 14% less electricity than standard 40-watt fluorescents (with only a modest reduction in light). By group relamping now with GE Watt-Misers, you immediately gain maximum power savings. Savings up to $4.20 per lamp over its rated life are not unusual.*

Later, you'll find your lighting expenses will be easier to control with a scheduled GE Watt-Miser group relamping program.

As for lighting levels, they may actually go up after a complete changeover from aging standard lamps to Watt-Misers, if you have been spot relamping.

Group relamping itself has always been a time-and labor-saving device, and combining it with Watt-Misers makes it a better than ever bargain.

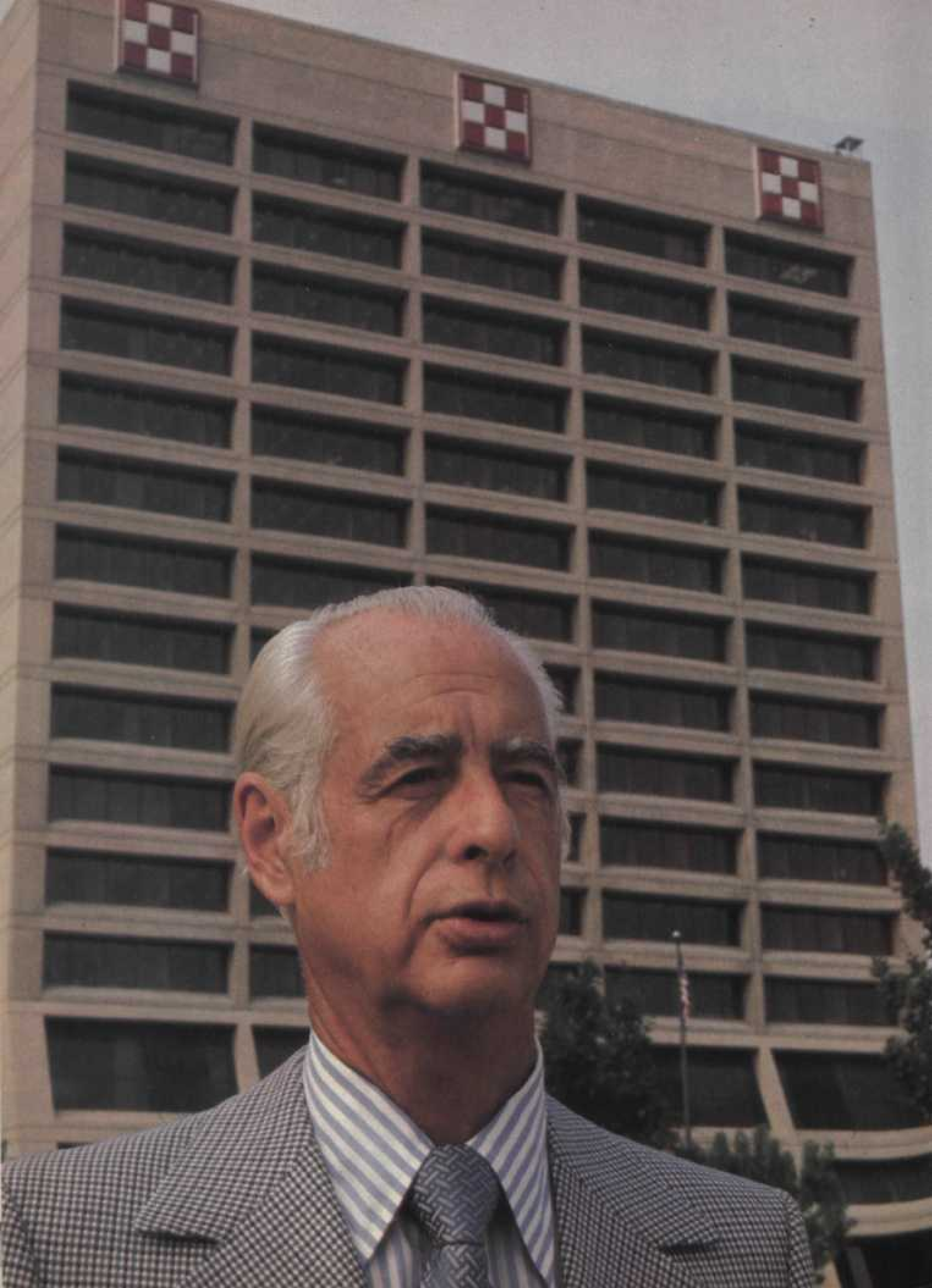
Ask us for more information contained in our bulletin, "Group Relamp Now", No. 210-5296. Write General Electric, Dept. C-520, Nela Park, Cleveland, Ohio 44112. Or, better yet, call your nearest GE Sales District Office . . . and get in with a good group.

*Based on national average of 3¢/kwh, 20,000-hour rated life.

LAMP BUSINESS DIVISION

GENERAL ELECTRIC

C-520



LESSONS OF LEADERSHIP

PART CXXV

The Value of Making Each Employee Feel He Counts

Ralston Purina has made great strides under Robert H. Dean. One reason is a management system that emphasizes individual achievement

"When Hal was made president of Ralston Purina," says a former college chum, "I went out and bought stock in the company."

His faith in Robert Halladay (Hal) Dean paid off handsomely. Since Mr. Dean took over in 1964, Ralston Purina's stock has increased more than three times in value.

Mr. Dean is only the fourth man to run this St. Louis industrial firm, founded as a riverfront feed store in 1894. Its slogan then: "Where Purity Is Paramount." The name of an animal feed it made and sold—Purina—was derived from the slogan.

Soon, the company became Ralston Purina Co., named after the feed and another of its products, a breakfast cereal called Ralston.

The firm became famous for those two products and for its trademark, a red and white checkerboard design which appears on Ralston Purina products and even on some of its buildings and equipment.

Ralston Purina was still largely an animal feed company in 1957 when Mr. Dean, who had joined it in 1938, became President Raymond Rowland's assistant. His first task was to get on its feet a mill the company was building in Mexico.

Within a year, he had founded Ralston Purina's international division and was a company vice president. The division now operates plants in 27 countries in addition to Mexico.

Mr. Dean, as Ralston Purina's president and now as chairman and chief executive officer, is given credit for imparting new directions to the firm. Today, it has four major business groups: Agricultural, consumer, international, and restaurant. The last two groups are the newest and account for a fourth of earnings.

Management also has been reshaped to center on product lines, rather than on specialized functions such as production or marketing.

A close student of management practices, Mr. Dean has instituted other innovations, too. They include a system in which Ralston Purina executives write letters monthly to their superiors outlining what they are accomplishing and hope to accomplish. It's a unique system, Mr. Dean says, which has proved remarkably effective.

In 1966, Ralston Purina's sales topped $1 billion; in 1973, $2 billion. Last year, they were $3.1 billion.

Mr. Dean, born June 27, 1916, was raised in Mitchell, S. Dak. He and Sen. George McGovern, the 1972 Democratic candidate for President, are the town's two most famous sons.

Here, in an interview with a Nation's Business editor at Checkerboard Square, Ralston Purina's headquarters, Mr. Dean tells what makes him and his company tick.

How did you happen to go to work at Ralston Purina?

I was a guard on the Grinnell College basketball team and its captain. We were going to St. Louis to play two local colleges there. I had written to Ralston Purina, as well as to a number of other companies, and I set up a job interview there between games.

I gave the personnel director some tickets to the games. I played well in both of them. He offered me a job, and after I got my bachelor's degree in economics in June, 1938, I hitchhiked to St. Louis and went to work for Ralston Purina.

What was your first job?

Grain clerk, at $115 a month. I thought they said $150, but who was going to argue about that in 1938? I picked up some extra money, anyway, playing on a local semipro basketball team.

You must have been some basketball player.

I always was a fair athlete. That

was fortunate, because otherwise I would never have gone to college. I grew up in South Dakota during the Depression, and my family had no money for college.

I was all-state on the high-school basketball team as well as graduating No. 2 in my class. I went to Grinnell on an athletic scholarship.

You found it tough growing up during the Depression?

I never felt sorry for myself. I went out and worked on a soda pop truck, when I was ten or 11, for a buck a day. I just thought those were things you were supposed to do.

And I worked at college. I went to school there with a job—third cook in a girl's dorm. I sliced bread and waited on tables. Then, in my sophomore year, I was made headwaiter in the dining room. I had 22 waiters and waitresses working under me.

I also sold corsages on the side, had a paper route covering the students, and gathered cleaning, pressing, and repairing. It wasn't work to me. I was happy doing it. Those were great times.

Obviously, you learned a lot about the business world at college. How about in your early days at Ralston Purina?

One of the first things I learned was this: You've been a big man on the campus. You've earned your way there. But when you come off the campus and go on the job, you're a little guy.

Nobody knows you. You start out right at the bottom.

You get humble pretty fast.

I started to learn how to be a commodity trader. I worked weekends in the company's grain elevators to learn grading. I was taught how to buy and sell at the local merchants' exchange.

In 1941, I was sent to Buffalo, N.Y., to run a little operation there.

"Give me a man . . . who really wants to give of himself, and that will put him ahead of the pack."

What kind of an operation was that?

It was a separate subsidiary, called the Checkerboard Elevator Co. My job was to make money—by buying commodities cheap and selling them dear. I didn't buy them just for Ralston Purina. I bought them and sold them to anybody.

I might sell to a Ralston Purina mill, or to a co-op, or a small feed manufacturer in upper New York State, or even to a firm in Boston. Buffalo was a local commodity center.

This was good experience. I had two secretaries working for me, plus overhead like rent, electricity, and my salary. I knew how much it cost me to open that door every day.

It was up to me to make expenses plus a profit.

When did you get back to St. Louis?

After several years in Buffalo and a couple more running a feed mill in Circleville, Ohio, I came to company headquarters.

In what capacity?

I was manager of grain operations. We had buyers throughout the United States, and we sat here in St. Louis at the hub of the wheel. We tried to coordinate this loose, informal network. I was running a team in the commodity buying area.

From that spot you went up the executive ladder until you became Ralston Purina's president. How big was the company then?

Well, our sales in 1964 were \$864 million and our earnings about \$25 million.

What are they now?

In the year ending in September, 1974, sales were \$3.1 billion and earnings about \$91 million.

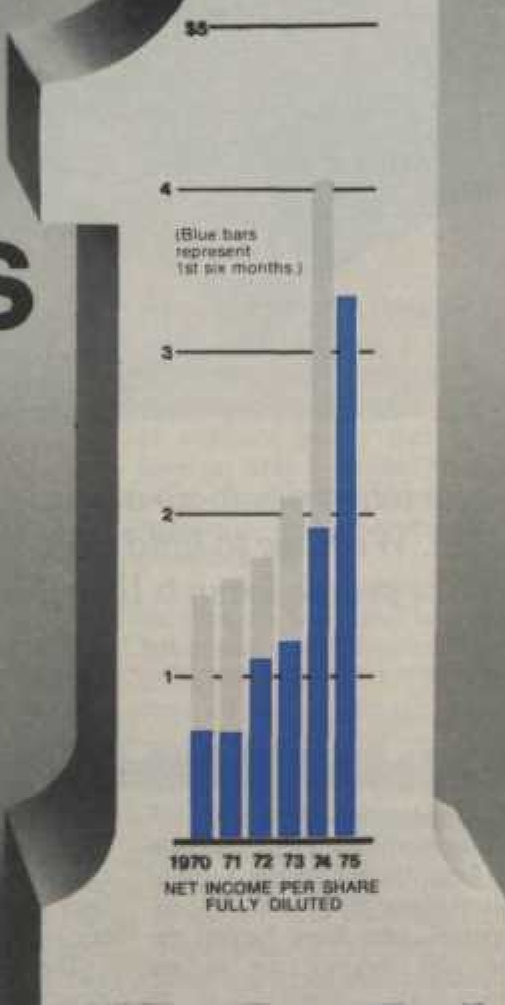
How did it feel to become president of a big corporation?

When I was made president, the thing bothering me most was that I didn't feel that I had been prepared to run a company of this size.

How did you change that?

Well, first of all, I felt there was an awful lot to learn, so I did a lot of reading. I still do—I have an in-

The Williams Companies is number



1st 6 MONTHS	1974	1975	UP
Revenues	$ 477,666,000	$ 620,411,000	30%
Net Income	$ 44,527,000	$ 80,933,000	82%
Assets	$1,068,681,000	$1,433,167,000	34%

. . . in the "Fortune 500" with a 37.42% annual total return to investors for the 1964-1974 decade.

EARNINGS: Williams has reported record earnings for 11 consecutive years. The future? The Williams Companies expects 1975 will be the 12th record year when we top our 1974 net income of $95,629,000 — which was up 97% over 1973. And resourceful Williams (WMB-NYSE) projects continuing growth.

FERTILIZER: *Agrico Chemical Company*, one of the world's largest fertilizer companies, has reported record operating earnings of $100,320,000 for the first six months of 1975, up 78% over last year's comparable period.

ENERGY: *Williams International Group*, active in 10 nations, has major pipeline construction projects underway in Alaska, Algeria, Nigeria and Peru. Its backlog is at the highest point in history. During the first six months of 1975, operating earnings were up 200% over the first six months of last year. *Williams Pipe Line Company's* 8,300-mile system is operating at capacity levels, delivering petroleum products and fertilizer solutions to its 12-state marketing area and *Williams Energy Company*, a leading LP-gas retailer in 25 states, reports record earnings.

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"Everyone who tries to do anything makes some mistakes. We hope to hold these to a minimum and to see that people learn a little bit from them."

quisitive nature. Beyond that, I tried to talk to as many people as I could who had experience of the kind I lacked. I wanted to learn as much as I could from them. I wish I could name all of those fine people in other companies who have helped me and are still helping me to get educated.

Then I tried to analyze what I had soaked up and tried to get some sort of synthesis of my own.

Did you reach any hard and fast conclusions?

Yes, one of the first things I thought we should do was to set down, in writing, our total corporate objectives—the principles that we intend to follow. I set up a committee of top executives and we spent probably 18 months distilling and putting into words some specific corporate objectives. They're philosophic but realistic, and we give a copy of this credo to every one of our employees.

Did it result in any basic changes in company philosophy?

One of the things we've changed, I believe, is that today we are a company that believes in—and understands, to some degree—the marketing philosophy vs. the production philosophy.

We start first with the marketplace, in terms of goods and services that people want. Then we come back and design them, to the best of our ability, to serve that public.

The other approach is to produce something and then go out and say: "Here's what we have. Now you buy it." So we believe the things we talk about in our company credo.

What do you emphasize most?

Probably the single most important factor we emphasize is the individual. We're far from perfect, but we consistently try to have a climate throughout management that ensures the individual a right to contribute to the organization, to share in the challenge, to share in the success, and to be rewarded for it. This reward must be fair in the monetary sense, but equally important is job satisfaction.

This is what will really make a corporation go.

I've seen organizations so constructed that people have to fit into slots. We've gone the other way.

Our organization is built around our people and their skills. As a result, we are in a constant state of flux or adjustment, as our people develop and come along.

Can you give an example?

We took a man who had come up through the grain-buying end of our business and had progressed to be the manager of a feed plant. He had a fine mind. We moved him into our international operations, where he did an outstanding job. He became vice president there, and now he's vice president in charge of our entire consumer products group—a very important part of our business.

He had no background, per se, in consumer products.

As another example, at one time we were in the poultry business, raising chickens and turkeys. We put a lawyer in charge of the turkey operations. He had no experience in this type of business, but he had a good head. We felt he could move into the turkey operations and put people together to run things. And he did. He is doing a great job.

Then you don't have to be a specialist to be a good executive?

No, not necessarily.

We've tried to create generalists who have a good basic grasp of what makes a business run—how to utilize people, employ assets, market a product, and produce it.

In an organization like ours, an executive can learn a lot because there's a lot of cross-pollenization.

One of the advantages is that a man doesn't have to wait for someone up ahead of him to be promoted or retired before he has a chance to step up. There are many other opportunities in the corporation than the job of your boss.

Our organization is a horizontal one, rather than vertical.

Some say that a good manager can manage anything. Is that your philosophy?

Most of the time, he can.

What qualities must a good generalist have?

I think a reasonable degree of intelligence and ability is a must. But most important is a great desire to contribute. Give me a man with that one thing, a man who real-

ly wants to give of himself, and that will put him ahead of the pack.

You mean great self-sacrifice?

I don't know that I like the term self-sacrifice. I think it would be most helpful if this desire were translated in terms of reward, of self-satisfaction. In other words, you're rewarded because you enjoy what you're doing. You're having fun at it. You're getting the thrill of the challenge and the thrill of success.

How do you achieve this sense of participation?

One of the ways is to push decision-making down to the lowest possible level. Management today, as far as we're concerned, is a high degree of delegation without abrogation of responsibility at the top.

You don't go in and do it for him. You don't make his decisions. But you damn well better be aware of what's going on and of what those decisions are.

So that you have a degree of control.

Well, any time the delegation system is working to its ultimate, you must have great control functions.

Now, for most people, control is a verb. But I am a rebel. I hate to be controlled. I think most of our good people feel the same way. So we define it as a noun. The noun control means the measurement of the results of the decisions made by our people.

Control can be objective and subjective.

We need both.

Objective control involves the physical records, how much was produced. Or numbers, sales, profit margins. . . .

How about subjective control?

We have devised a system which, as far as I know, no one else uses as extensively as we do.

Once a month, each person in our management group writes a simple letter to his superior. It has no definite form and can be one paragraph or three pages. But once every 30 days, each manager puts down on paper his thinking, his view of his job, what he has been doing, what he is accomplishing—an eyeball-to-eyeball type of communication.

You'd be surprised how you can read character and detect progress from these monthly letters. They also serve as a disciplinary tool for the writers.

Where did you pick this up?

I learned it when I was running the international group. We had a lot of people scattered around in a lot of different places that I couldn't keep up with. I decided that I wanted to know more about what was happening than what the formal reports told me.

It would be rather simple, I thought, for them just to write me a letter each month and tell me what's going on. It evolved from that. Today, we use it through every level

of management in this corporation.

How many write letters to you?

I get letters from about ten people. Then I may see another 50 to 200 letters that other supervisors feel might be of interest to me because of the growth some individual has shown or because of a job exceptionally well done.

How far down does this practice go?

To anybody, line or staff, who has any degree of management responsibility. Down at least six or eight levels from my office.

Any other techniques like this?

Yes. In order to get decision-making down to the lowest level we started a separate program called Operations Improvement. It's a continuous program of job-enrichment. It's based on the premise that no one knows as much about your job as you do. It also recognizes that people generally are underutilized, want to be productive, and will be, if given the opportunity.

It involves small groups of employees of all levels—from top officers to mail clerks—who meet regularly, usually weekly.

At each meeting, they are made acquainted with better management and operating methods. Then they are encouraged to apply them to their own jobs.

Basically, we're carrying out the idea that each individual's effort does count.

Is it like a suggestion system?

No, it's much more sophisticated and structured.

It takes the man who runs the northwest corner of the warehouse in Pocatello, Idaho, and in effect he becomes the president of that northwest corner. It shows him how that corner fits into the warehouse, how the warehouse fits into the mill, the mill into the region, the region into the division, the division into the group, and the group into the company.

What else is different about it?

Well, the keystone is that job enrichment can't come from a management edict or from an outside expert. It must come from the man himself. Operations Improvement also operates on the assumption that the main measure of results is profit.

Can you give an example?

Take one Operations Improvement plan developed by a first-line supervisor in the central mail room of our world headquarters here in St. Louis. It resulted in audited savings to the company of $120,000 a year and clearly enriched the job of every employee in the department.

At Ralston Purina, more than 2,000 employees have gone through the program. Each has developed an action plan that improved the quality of his or her job or department. And each plan is saving the company an average of $5,000 annually.

So it's a solid success?

So successful that we now make it available to other companies in the United States—on a fee basis. It has become a separate small profit center for Ralston Purina.

What else do you do to get people involved?

One other thing.

I have been concerned for a long time about both long-range and short-range strategic planning. We have built a planning system that works from the bottom up, as well as from the top down.

Could you explain that a little?

Once a year, our people put together, from their own individual operations, a strategic plan with hard numbers for the next three years. Then those plans move up and we see them from a total corporate standpoint.

We try to make those grass-roots plans mesh at the top.

If any won't work for any reason, like capital shortages or a conflict with other corporate strategy, we try to make adjustments so it will fit into the overall corporate goals.

That way, we have input from the bottom up and from the top down.

It has been an immeasurable help in developing strategic planning.

Do you have a label that fits your philosophy, like participatory management?

That's a six-cylinder word. Our philosophy is simply to take a human approach. We believe in the Golden Rule.

You said a good executive must have desire, among other qualities. Are there any more?

A sense of gut honesty, which precludes phoniness. That must be there to make any system work.

For example, at one time, we found that at meetings a lot of people sat around the table, saying nothing, and one or two did all the talking. As a result, decisions were being made without proper deliberation or proper input.

Then, after the meeting, the washroom became the focal point of the discussion. And the truth came out in the washroom.

One of the things I insisted on was that if we couldn't discuss matters openly around the table, then we would have to hold our meetings in the washroom to thresh out what was wrong—and how to fix it.

Why won't everyone speak out?

I think there is a certain amount of fear involved. And you can't have fear in a successful organization.

I don't think the fault is so much with those who remain silent as it is with the one or two who do all the talking. A lot of times, those people don't want to hear anyone but themselves.

We feel that everyone has a contribution to make.

Around here, we create the kind of atmosphere where you can be told if you're wrong—gently. Everyone who tries to do anything makes some mistakes. We hope to hold these to a minimum and to see that people learn a little bit from them.

Of the qualities which an executive needs, which do you personally think you have to the highest degree?

Desire—translated, I hope, into stimulating and motivating our people into becoming better total citizens tomorrow than they are today.

END

REPRINTS *of this article are available from Nation's Business. See page 34 for details.*

A BICENTENNIAL SALUTE TO AMERICAN CITIES:

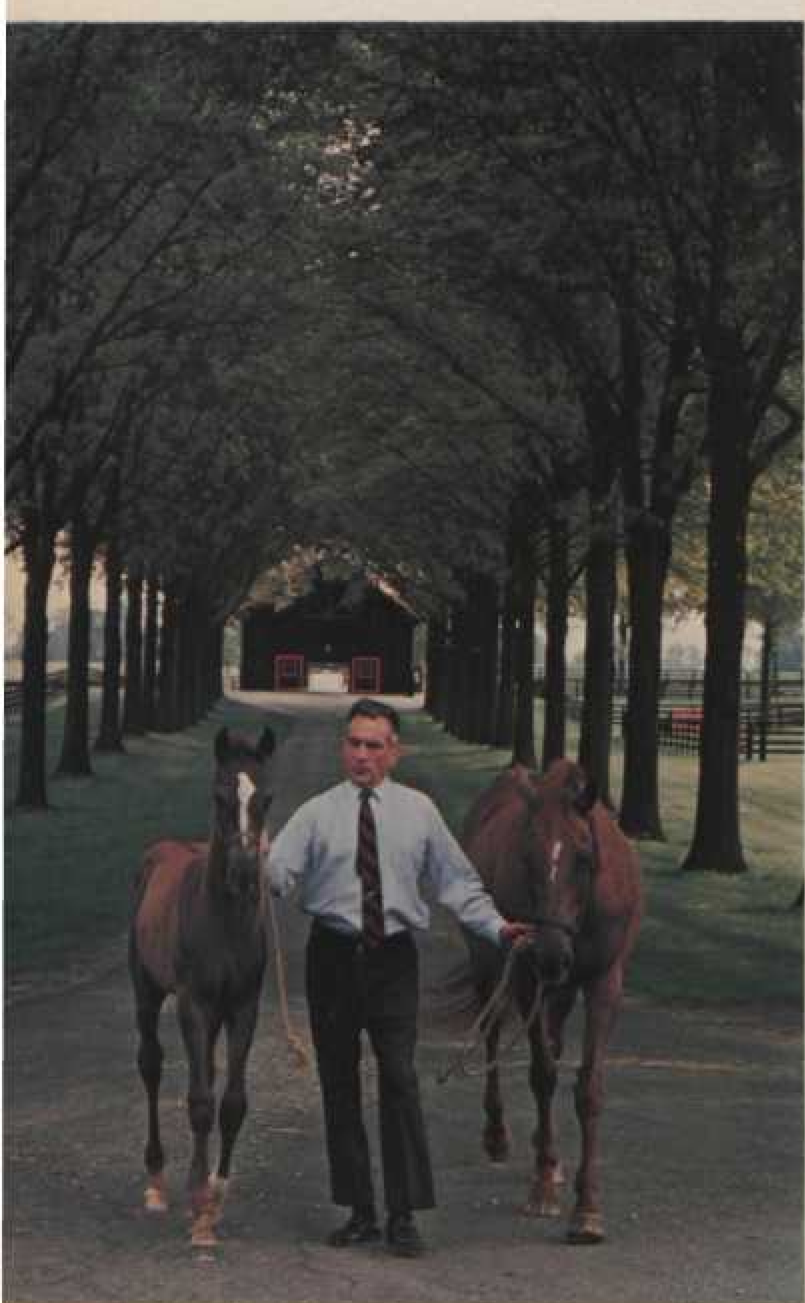
LOUISVILLE

Identifying With Tomorrow

WHEN NORTHERNERS AND SOUTHERNERS chose sides to fight the Civil War almost 115 years ago, the city of Louisville began suffering from an identity problem.

The traumatic war era went by without Louisville fully on either side. The main reasons were the state of Kentucky's split personality on the issue of which side to join; a distinct leaning toward the South, although northern armies occupied the city; and the fact that Louisville is geographically inside Dixie only because it is on the southern bank of the Ohio River.

When the war ended, Louisville had rapport with both sides, alignment with neither. Neither side owed Louisville much of anything. Cincin-



Louisville is the center of the sports world every May for the running of the Kentucky Derby. It is the center of the thoroughbred breeding world for much more of the year due to men like Warner L. Jones, Jr., and his magnificent Hermitage Farm. Here he walks one of his mares, which is in foal to "triple crown" winner Secretariat, and a colt sired by the great Tom Rolfe.

PHOTOGRAPHS BY YOICHI OKAMOTO

Kentucky is the home of bourbon, and a large part of Louisville's business world is involved with production of the native American drink. Automated distilleries turn out millions of bottles of the amber whiskey that is increasingly popular in Europe and Latin America. These bottles are being filled with Early Times bourbon.

Much of the civic power of Louisville is held by these men, who deserve a large share of the glory for reviving their city. Standing on the banks of the Ohio River are (front row, left to right): Leonard B. Marshall, president, Louisville Trust Co.; John H. Hardwick, chairman, Louisville Trust Co.; Maurice D.S. Johnson, chairman, Citizens Fidelity Bank & Trust Co. Back row: Charles F. Herd, executive vice president, Louisville Area Chamber of Commerce; Al J. Schneider, president, A.J. Schneider Construction Co.; Paul D. McCandless, general manager, South Central Bell Telephone Co.; A. Stevens Miles, president, First National Bank & Trust Co.; and Frank B. Hower, chairman, Liberty National Bank and Trust Co.

LOUISVILLE: Vigorously Attacking Problems *continued*

nati, Indianapolis, and St. Louis, big cities with easily recognized identities all their own, were in the same mid-America area and they diverted business attention from Louisville. To the south, there was Atlanta, which set a growth pace that Louisville couldn't match.

Louisville had been prominent in transportation, as a river port. But its river trade faded.

For decades, it seemed the city's claim to fame rested on bourbon whiskey distilling, a company that made the best-known baseball bats, and a two-minute period in the afternoon of the first Saturday of May—the annual running of the Kentucky Derby at Churchill Downs.

When things were gray

To Louisvillians, their city's identity was fuzzy. They weren't ashamed of it, but it didn't win them many plaudits, either.

Those were days which Maurice D.S. Johnson, now chairman of Citizens Fidelity Bank & Trust Co., describes as "Gray. Louisville was gray, too."

Today, things are different. With justifiable pride, Louisvillians point to the progress their city has made in recent times and to vast improvements that are definitely on the way. Louisville is in the position of being an unfinished city—ten years into a rebuilding and problem-correcting program with five more years to go to completion.

Louisville is establishing an identity as a city that knows what is wrong, corrects its faults, and goes on to better things.

Problems that Louisville acknowledges and attacks with gusto include a decaying downtown heartland; a shortage of close-in housing that can bring large numbers of substantial taxpayers back into the city; lack of anything resembling an adequate transit system; a school busing situation that divides the people; and water and air pollution.

Many American cities have similar problems, but few go after solutions as hard as Louisville does.

Forty years ago, initial rumblings were heard of, "Let's get Louisville moving again." The city leaders of that period, most of them now dead, planted the seeds of present progress.

The Great Depression was in force, and few people—and fewer cities—had money for anything except day-to-day operation. It was a time for survival, not revival.

But studies were made in the 1930's and early 1940's that looked to the future. Planning sessions were convened.

Then came World War II, which blotted out all hope for a quick uplift.

At the end of the war, an exceptional man held leadership in Louisville. He was the mayor, Wilson Wyatt, Sr., a lifelong resident of Louisville who today is still prominent in the city as a lawyer.

Mr. Wyatt and 300 lawyers, bankers, property owners, merchants, and hoteliers soon made complacency a sin. They set up the Louisville Area Development Association, precursor of the present-day Chamber of Commerce. They selected targets for improvements, particularly in the downtown, which most Louisvillians spell with a capital D. They intended to snatch the downtown back from near death and, in so doing, to begin establishing a reputation for the city as a place where things that need to be done get done.

That's the way it is working out in Louisville.

Organizations that have helped to lead the way have much the same names that similar organizations have in other reviving cities. They include the Development Committee; Center City Commission; Central Area Corp.; Urban Renewal Commission; Riverfront Commission; and, of course, the Chamber of Commerce.

Mr. Wyatt got abundant help as revival fever mounted, but years went by without much visible accomplishment because rebuilding a major city calls for painstaking planning to hurdle innumerable obstacles. Finally, during the 1960's, definite plans were approved to destroy—that is the proper word—the worst parts of the decaying downtown and to rebuild from the ground up.

Return to the river

Although Louisville was founded by George Rogers Clark in 1778 as a river port, the town had turned its back on the Ohio after the Civil War. A practice of building further and

further from the river over the years is believed to have hastened the decline of the city. Businessmen whose activities centered on the river often found other cities more convenient.

A basic decision of the revivalists was to turn the city back toward the river.

This was a popular decision, and during the 1960's, bankers, merchants and other businessmen were laying plans to locate their new buildings in downtown near the river, instead of far from it.

An eye for history

A few years ago, entire city blocks of grubby shops, warehouses, and small hotels, uneconomic small office buildings, and vacant structures began disappearing. Buildings of historic and architectural interest were, in many cases, spared.

In places where nondescript buildings once stood, there are now such outstanding structures as the Galt House hotel, First National Tower, Louisville Trust Co., Citizens Plaza, Bank of Louisville, and Liberty National Bank.

These are sizable buildings. For example, the Galt House has 714 rooms; the First National Tower, 40 floors; Citizens Plaza, 30 floors. During the late 1960's and early 1970's, more than $3 billion was spent on new construction in Louisville, much of it in downtown. A big-city skyline is being created.

Sprinkled among the giants are such gems as the new, modernistic Actors Theater, which is entered through a pre-Civil War bank facade with high Grecian columns; scores of attractive, old buildings housing boutiques and small offices; and the attractive, modern Financial Square, which is a complex of quarters for brokers, savings and loan associations, bank branches, and insurance offices.

Such city builders and boosters as Baylor Landrum, managing director of the large insurance firm of Nahm, Turner, Vaughan & Landrum, delight in pointing out that for every $1 of government urban renewal money spent in downtown, $14 of private money was invested.

Trees and fountains

The city government created a focal point on the river's edge, the Belvedere. This is an 11-acre plaza of cement, marble, granite, and steel that juts out over the Ohio. There, open air meetings are held, concerts are given; Louisvillians stroll among the trees; and pretty fountains gush around varicolored lights, with the water's murmur helping to soften the noise of the city. Also included is a three-level parking garage for 1,600 cars. Cost was $13.5 million to the city and to the assisting Riverfront Development and Operating Commission.

Shippingport Square, a hotel-

Kool Filter Kings, 16 mg. "tar," 1.2 mg. nicotine; Viceroy Filter Kings, 16 mg. "tar," 1.0 mg. nicotine; Raleigh Filter Kings, 16 mg. "tar," 1.0 mg. nicotine; Belair Filter Kings, 15 mg. "tar," 1.0 mg. nicotine av. per cigarette, FTC Report Apr. '75.

Robinson S. Brown, Jr., chairman of Brown-Forman Distillers Corp., whose brands include Early Times, Old Forester, Jack Daniel, and other whiskeys. He's also president of the Louisville Area Chamber of Commerce. A Louisville-lover, he says: "This is a city that retains the charm of a smaller community, even with its vibrance of growth. It's a well-balanced city with industry, commerce, the arts, and recreation for the entire family. Everyone usually takes pride in his hometown, but here this pride seems to be contagious for newcomers, too."

David A. Jones is chairman and chief executive officer of Humana, Inc., a Louisville-based company that operates 61 hospitals with 7,700 beds in 14 states. Between 1970 and 1974, Humana increased its revenues 289 percent.

Tobacco is important on the Louisville economic scene, and Brown & Williamson Industries' Joseph E. Edens heads the largest tobacco operation in town. He also oversees Gimbel's department stores and other B&W subsidiaries. B&W is owned by London's British-American Tobacco Co.

shops-office-building-parking garage complex covering an entire block, is on the way up near the water.

A mall that runs through the heart of downtown is being extended to within two blocks of the river, and this contributes to Louisville's image as a city of trees, flowers, and parks. A new convention and exhibition center covering two entire blocks will be finished in less than two years. About 30 other major construction projects, including a large Hyatt hotel, are also under way.

Several large department stores will now maintain their headquarters stores in downtown, although they have branches in the suburbs.

There have been growing pains, of course. The recession came at the worst possible time and there is empty rental and retail space in several new buildings.

In addition, a huge, double-decked freeway runs the length of the waterfront, hampering its use and infringing on its beauty. The concrete layers were put there many years ago, and the consensus is that nothing can be done about them now. A spur railway track parallels the freeway.

But despite setbacks, Louisville is off and running toward better days just as surely as the bangtails will be off and running next May 1 at Churchill Downs.

Chamber of Commerce Executive Vice President Charles F. Herd attributes a mood of progress that

pervades the city to years of spadework and the present leadership in business and government.

Young leaders

"Mayor Harvey Sloane and County Judge Todd Hollenbach, both of whom are under 40, have added many pluses for development," Mr. Herd says.

"Mayor Sloane walked neighborhoods to meet people on behalf of a proposed transit tax. Judge Hollenbach helped establish a special court to handle ecological matters and worked on behalf of the Kentuckiana Regional Planning and Development Agency, which is the clearinghouse for federal projects affecting several Kentucky and Indiana counties. Other young men, including bankers and businessmen, have taken the lead in community projects."

Another source of encouragement has been the pace of business. Unemployment has been lower than in many other cities. Construction has been off less in Louisville than nationally.

Leonard (Scottie) Smith, executive secretary-treasurer of the Kentucky State AFL-CIO, quotes Commerce Department figures in claiming "the nation's highest productivity rate is here in Kentucky." Mr. Smith adds:

"One reason is that unions and management get along well together, all things considered. Strikes are rare, and violence is extremely rare.

"We team with management occasionally. We got together recently and beat a move for an annual session of the state legislature."

Joseph E. Edens, chief executive of Brown & Williamson Industries, Inc., and chairman of its giant subsidiary, Brown & Williamson Tobacco Corp., agrees with Mr. Smith.

"Moderates are on both sides of the bargaining table," he says. "When bargaining time comes, we each try to get the best deal we can, and that's the way it should be. Then, both sides stick to the deal once it is made."

One of Louisville's most respected men and its best-known attorney is Wilson Wyatt, Sr. He served as mayor, helped launch his city's revival, held high posts in Washington under the Truman administration, and was campaign director for Democratic candidate Adlai Stevenson in the 1952 presidential race.

This young man bears one of journalism's well-known names. He's Barry Bingham, Jr., the editor and publisher of Louisville's distinguished morning newspaper, the Courier-Journal, and its afternoon paper, the Times. His father was publisher for many years and is still chairman of the parent company.

Diversity of business

A big factor in Louisville's relatively good economic health is diversity of business.

General Electric's national appliance center employs about 20,000. Other major employers include Ford, Brown & Williamson, Philip Morris, L&N railroad, Colgate-Palmolive, American Commercial Barge Lines, Chemetron, American Air Filter, International Harvester, Henry Vogt Machine Co., South Central Bell Telephone, Du Pont, B.F. Goodrich Chemical Co., Klarer of Kentucky, Reynolds Metals, Standard Oil of Kentucky, American Standard, Glenmore Distillers, Brown-Forman Distillers, Humana, Inc., Belknap, Inc., Republic Steel's buildings division, Commonwealth Life Insurance, and a U.S. Navy ordnance plant.

Businessmen, whether or not their companies are locally headquartered, tend to play active roles in community affairs. For example, Charles R. Dean, manager of International Harvester's tractor and outdoor power equipment plant, where 5,500 people are employed and where a $12 million expansion is under way, participates in a full slate of community affairs. So do hundreds of employees.

"We benefit from what the city has to offer," Mr. Dean says, "and we owe the community all the support we are able to provide."

Louisville has 7,000 acres of parks, nine public golf courses, miles of rolling land and winding roads, and a

The Humana Dimension.

We're broadening the traditional goals of patient care, by using the tools of private enterprise to build, own and manage hospitals that run at a profit.

Humana is working to provide not only what is medically important to the patient from the physician's standpoint, but also that which is important from the patient's point of view. For instance, through research, we have identified the major sources of patient anxiety and we are developing hospital procedures to minimize these anxieties and increase the patient's comfort and sense of well being.

The key to Humana's innovative approaches to providing hospital services is private enterprise. By applying sound business practices and the most advanced management techniques, Humana is solving the biggest problem facing hospitals—increasing costs compounded by declining labor productivity.

We have dramatically increased productivity in our hospitals and have controlled escalating costs. Humana hospitals are able to run at a profit that gives us the investment attractiveness to provide the capital formation to build new hospitals.

What we're accomplishing is of great importance to the future of our country's hospital services. The price tag for replacing worn-out hospitals and building new needed ones cannot be met by traditional means. Humana represents a new and important resource that will play a vital role in providing the quality and quantity of hospital services we all want. Humana Inc., One Riverfront Plaza, Louisville, Kentucky.

Mrs. John Young Brown, Jr., better known as Ellie, is by far the prettiest owner of a professional basketball team. Hers is the Kentucky Colonels. She loves her city so much she keeps the team there despite losing money. Her husband spread the fame of Kentucky fried chicken around the world.

Until recent violence over school busing, Louisville was noted as a racially quiet city. The busing flare-up subsided after a few days. Blacks like J.E. Price, Sr., along with white businessmen, help to keep the city quiet. Mr. Price is president of the Mammoth Life & Accident Insurance Co.

LOUISVILLE: Bringing Taxpayers Back to the City *continued*

collection of schools and colleges with pretty campuses.

The Louisville area has a population of 900,000. Seventy-five entirely separate towns and villages with a total population of about 550,000 are grouped outside the city. The population inside the city limits is 350,000.

Too few affluent, high-taxpaying people live in the city, it's felt, and Louisville hopes to do something about this. There has been some migration back to the city, but the pace is slow. A popular move just now is to buy old houses in posh city neighborhoods, such as Belgravia-St. James Court, and refurbish them. Often, three or four deluxe apartments fit in one Victorian house. For lower income people, there are the restored neighborhoods of Butchertown and Cherokee Triangle.

High-rise apartment buildings are going up around the fringes of the downtown and town houses and low-rise condominium apartments are being built in the downtown itself.

Providing mass transit

For years, the Louisville area has needed a transit system to adequately serve it, and finally it is getting one.

The people of the area recently voted to put an occupational tax on themselves to finance a network of bus routes, including a downtown circulator that runs on a five-minute schedule. Shuttle buses will connect villages and join trunk bus routes. Eventually, it is hoped, the system will be extended across the Ohio to connect with southern Indiana.

William F. Lucas, president of Brown-Forman, sees a spin-off from better transit service. Freeways many years ago cut up outlying towns and centers, he says, destroying some of their identity and togetherness. Now, new transit lines will sew the towns together again.

Still to be sewn again, according to J.E. Price Sr., president of the largely black Mammoth Life & Accident Insurance Co., are various dismembered parts of the downtown area where blacks predominate. Mr. Price, who is black, says urban renewal, freeways, and other construction have destroyed spots where blacks congregated, and only recently have new centers of black community life begun forming.

Race relations

Louisville has had some racial problems recently. However, city schools were desegregated without conflict in 1956—Louisville was the first southern city to do so. In 1967, there was black rioting just as there was in a number of cities, but Louisville's was minor compared with at least 20 other cities'.

The hottest feelings on the race relations front in years have been engendered by a court ruling requiring school busing for racial reasons throughout Jefferson County, which includes Louisville and most of the Louisville area. The city school system recently was absorbed by the county system due to financial difficulties.

The busing was opposed by most whites and by many in the black population, which totals between 12 and 14 percent of the county. Louisville leaders, striving to avoid violence and other disruption, campaigned for compliance in advance of the busing's start last month.

However, violence did flare up. National Guardsmen were called out, and hundreds of arrests were made. Nevertheless, there were few injuries, violence waned, and busing—unpopular or not—continued.

Curbing pollution

Problems of water and air pollution seem to be en route to solution.

Barry Bingham, Jr., editor of Louisville's two newspapers, the Courier-Journal and Times, half-jokingly suggests that cities taking water

from rivers should be required to build their intakes one mile below the point where they dump their untreated sewage into rivers.

A new $60 million secondary treatment plant is in operation for Louisville, and two more are due in two to three years.

With other Ohio River communities also providing secondary treatment, the river is considerably cleaner than it once was.

The county also has pollution-control bonding authority to assist industries in funding needed improvements.

Many plants in Louisville have installed equipment to curb air pollution.

Louisville resurgence is largely due to the amalgamation of political and economic power. Several hundred businessmen have played parts in the resurgence. On the political side, these men, both under 40, represent much of the recent clout. They are County Judge Todd Hollenbach (left) and Mayor Harvey Sloane.

Culture aplenty

Culturally, Louisville is in good shape. Actors Theater, under Jon Jory, is one of the nation's top professional regional theaters. The city also has a first-rate recording philharmonic orchestra, a youth orchestra and theater, a junior art gallery, an arts center, an active opera association, and a dance council.

About half a million dollars in donations is collected annually by the Greater Louisville Fund for the Arts. Will Price, president of Standard Oil of Kentucky, says some Louisville companies contribute up to $30,000 each to the fund. He claims there is more cultural exposure in Louisville per head than in any other American city.

Little is lacking now in medical facilities. Even less will be lacking in another three or four years when one of the largest medical complexes in the country will be completed on the fringe of downtown. More than $150 million is being poured into the development, which will include the Methodist Evangelical Hospital, Norton-Children's Hospital, Jewish Hospital, General Hospital, and the University of Louisville's Health and Science Complex. The university's complex will include a $52 million teaching facility.

Also in the overall complex will be the Radiation Center for Cancer Therapy & Research; the Institute of Physical Medicine and Rehabilitation; the Kentucky Lions Eye Institute; a half-dozen psychiatric, psychological, and paramedical facilities; and three medical office buildings.

Shortages in sports

Many Louisvillians tell you their city needs more big-time sports.

The Kentucky Colonels are champions of the professional American Basketball Association, and the University of Louisville plays consistent top-class college basketball. And, of course, Churchill Downs has good racing. Also, the University of Louisville offers an improving brand of college football.

But there is no professional football, baseball, or soccer, and little big-league golf.

A leading personality in the city's sports world is Mrs. John Young Brown, Jr., wife of the man who turned Col. Harland Sanders' Kentucky fried chicken into big business.

Mrs. Brown is majority owner of the Colonels and the club's chairwoman. Her board of directors is all female except for Adolph Rupp, who coached University of Kentucky basketball teams to national prominence.

The Colonels, according to Mrs. Brown, have lost money two years running because of high player salaries and bonuses, although the team averages an excellent 10,000 fans per game. Will she sell the team?

"Not for a while," she says. "I think Louisville's image should include good professional sports, and the Colonels are the best we have. I'm willing to keep the Colonels for a while."

Enthusiasm widespread

Mrs. Brown is typical of a number of Louisville citizens who are willing to spend large sums of their own money to improve their city's identity. The get-up-and-go attitude is widespread.

"We have seen what Atlanta accomplished by establishing an identity as an up-and-coming, live-wire, never-miss-a-bet town," one Louisvillian says. "We think Louisville will do even better." END

What is it like to live in Louisville? A businessman can enjoy country living in a home only a fifteen minute drive from his office. In Louisville he can be part of a stimulating business community from nine to five, yet be on the golf course by five thirty . . . or on his boat, in his garden, or enjoying a canter in the park. Or, after work, he can drive home, dress, take his wife downtown for dinner and the theatre, opera or symphony, and get back home at a reasonable hour.

In Louisville the mean temperature is 56.8° which means Louisvillians can enjoy outdoor activities the year around. Louisville has preserved over 7,000 acres of its rolling hills and woodlands as public parks. Within a few hours' drive are thousands of square miles of unspoiled Daniel Boone country, well-stocked fishing lakes, rivers and streams, and Bluegrass horse farms. For lovers of the outdoors few areas in the nation offer such a variety of attractions.

Louisvillians live in what has been called, "one of the ten best cities for the arts in America". The Louisville Orchestra has been internationally acclaimed for its performance of the best in contemporary music as well as the classics. Our Actors Theatre of Louisville is one of the nation's most successful regional repertory companies. The best of Broadway is seen on tour at our new Macauley Theatre.

Louisville is also outstanding for its sporting attractions. Churchill Downs, world's largest race track, and home of the Kentucky Derby, is just one of three race tracks in the city. The Ohio River offers the excitement of sailing, waterskiing and houseboating. Louisvillians enjoy championship basketball, with the University of Louisville in college competition, and the Kentucky Colonels in the professional arena. The nation's top horse show climaxes our annual state fair.

Louisvillians are proud of their schools, which are modern and innovative and produce a good percentage of merit scholars. At college level there is the University of Louisville, now part of the state university system, with a full choice of graduate and professional schools. Indiana University Southeast offers a four year curriculum, as do two of Louisville's liberal arts colleges.

The University of Louisville Medical School, associated with the city's new Medical Sciences Complex, symbolizes the community's dedication to good health care. The cost of medical care is somewhat less than the national average. But we have no shortage of doctors or hospital facilities.

The cost of living in Louisville is about what it is elsewhere . . . except for housing. A home here will cost less than in more northerly areas, and residential property taxes are substantially lower.

Louisville is a good place to live and make a living!

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Blackouts, brownouts, or dimouts because of power shortages have not been a problem in Louisville. Even during peak summer load, Louisville Gas and Electric Company has had ample margin of reserve generating capacity. And since LG&E is equipped to burn coal in all of its steam generating units, there is more than enough fuel right in Kentucky — the nation's leading coal producing state.

Louisville offers some other energy-related advantages. Our central location means we're gallons-of-fuel closer to a lot of your markets. We're within a day's drive of over half the country's population. We're a major center for distribution and warehousing.

If you'd like more figures on the advantages of Louisville for plants, corporate headquarters or regional offices write or call Stan Bowling or John Brownfield, Louisville Development Committee, 300 West Liberty Street, Louisville, Kentucky 40202. Telephone (502) 582-2421.

Louisville in the mainstream of America

By VERNON LOUVIERE
Senior Editor

Gas Company Makes Customers Its Partners

In Louisiana, 125,000 natural gas customers are cheering on the sidelines every time their gas company sinks a new well. Why? They have a piece of the action.

The customers are sharing in the profits on any new gas discovered in a unique program launched last year by Entex, Inc., a Houston-based diversified energy company.

Under the program, approved by Louisiana's Public Service Commission, Entex collects an additional one cent per 100 cubic feet of gas used by the company's Louisiana customers. This means the customers, 98 percent of them residential, contribute an average of about two cents a day each. If everything goes well, they will receive all profits on up to 150 percent of their investments and share equally with the company additional profits generated by the joint venture.

So far, six wells have been sunk and three are producers. Gas exploration under the program is confined to southern Louisiana.

Together, Entex and its Louisiana customers are putting up $10 million during the five-year life of the program. The customers get first priority on all gas discovered.

Entex, operating in Louisiana, Texas, and Mississippi, was the distribution arm of United Gas Corp. until split off as a separate company in 1970.

Entex customers in Texas and Mississippi are not participating in partnership programs like the one in Louisiana. A move to seek Mississippi Public Service Commission approval of such a program in Mississippi is under consideration. Because utilities in Texas are regulated by individual cities, rather than by the state, a similar arrangement for Entex's Texas customers is unlikely.

Since the program got under way, the Louisiana customers' contribution has reached $2 million.

This natural gas well is one symbol of a partnership between Entex, Inc., under Chairman Jackson Hinds (above) and its customers in Louisiana. The customers have an investment in gas exploration and will share in resulting profits.

According to Jackson C. Hinds, chairman and president of Entex, customer reaction to the arrangement has been excellent. "They like the idea of being our partners," he says.

Mr. Hinds adds: "Frankly, we might never have launched this exploration program without this kind of financial arrangement. We believe it is innovative and logical. Our customers share in the risk, so they should share in the profits."

Whatever profits accrue will be paid out in the form of credits to customers' gas bills.

An estimated 35 percent of the money in the exploration effort will be furnished by Entex and is not subject to refund.

Despite forecasts of fuel shortages this winter, Entex customers in Louisiana are virtually assured of uninterrupted supplies. The company's total gas volume in the three states where it operates was curtailed by only a half of one percent last winter.

"The success in our Louisiana drilling program will give us an added future source of supply to provide for the growing demand in that area," Mr. Hinds reports. "And we anticipate taking care of residential growth in all our gas service areas."

In addition to its search for new gas supplies in Louisiana, Entex is investing $11 million this year on exploration and development—or double what it spent last year.

Since the company was formed, net income has doubled.

Although the Entex operations sit astride the richest known oil and gas deposits in the country, the company is leaving no stone unturned in searching for new supplies of energy. Entex has just organized a coal company subsidiary that is investing $2.5 million to explore for coal deposits in the Gulf Coast area. •

A TV Stress Test for Executives

Dow Chemical Co. executives are put through tough interrogation sessions in this mock television studio to prepare them for actual TV interviews later.

In any self-appraisal of his business abilities, today's successful corporate executive must ask himself: How do I come across on television?

More and more executives are going before the TV cameras to discuss pollution, profits, women's rights, and a wide variety of other subjects.

Some approach the cameras with poise; others are jittery.

Executives at Dow Chemical Co. have a chance to sharpen their television skills without leaving the company premises in Midland, Mich. Dow has built a studio and created an in-house TV show modeled after "Meet the Press." It's called "The Corporation." Executives are subjected to the stress of a 30-minute grilling by hard-bitten "newsmen," actually Dow employees.

The idea originated with Dow Chairman Carl A. Gerstacker after he watched an oil company executive squirm during television coverage of Senate hearings on oil industry profits. The witness was so rattled that he could not recall his firm's earnings.

"Too often, those of us in business are competing in a situation where the opposition are pros and we are amateurs," Mr. Gerstacker says. "The public, therefore, sees us in a bad light, doesn't understand, and doesn't buy our point of view.

"Yet it's safe to assume that at some point in his or her career, the senior executive might well have to cope with an audiovisual situation involving George Meany, Evelyn Davis, Ralph Nader, Philip Hart, or the Symbionese Liberation Army."

More than 40 top Dow executives have been put through the TV stress test. Panel members appraise their performance. The executives study themselves in reruns of the video tapes, noting their weaknesses.

Mr. Gerstacker says he doesn't expect these simulated TV appearances to turn every corporate executive into a skilled TV professional. But he thinks the sessions give executives a feel for audiovisual confrontation.

"Too many companies expect their executives to acquire such skills by a process apparently combining genetics, osmosis, and lightning bolts, and this makes for a rather vulnerable executive and corporation," he says.

"Hopefully, 'The Corporation' will reduce the vulnerability of our people and of Dow." •

How Taxpayers Can Get a Bargain

Rodger J. Elble defines an elected official as "a person who can provide the best possible government at the least possible cost."

As a holder of public office himself, he obviously is trying to provide just that. Mr. Elble, who is supervisor of purchasing at the Amoco Oil Co. refinery in Wood River, Ill., is also Wood River township supervisor and a member of the Madison County board.

He is not a typical politician. In the ten years that he has held public office, he has either turned down or donated to some community cause about $40,000—most of his public salary. And because of his watchdog approach to public spending, it is estimated that he has saved his township about $5 million over the years.

"I totally reject the theory that if you spend enough money you can solve any problem," he says. "I consider it my responsibility to see that the taxpayers receive the maximum in return for their tax dollars."

Mr. Elble estimates that he devotes an average of 40 hours a week to his two public posts. That means working evenings, weekends, and holidays.

Why does he do it?

He explains:

"This community has given so much to me and my family. This is my way of paying it back."

When Mr. Elble ran for his first political office, assistant township supervisor, he pledged to return his salary to the taxpayers. The pledge was derided by his opponents. But he fulfilled it.

Mr. Elble is unrelenting where the taxpayers' interests are at stake. When he found that the county was charging $1.4 million a year for collecting taxes in the five communities in the township, he went to court. The county tax-collection charge, after months of legal debate, was ruled unconstitutional.

When the township's new hall was completed, Mr. Elble took his salary as supervisor and spent $1,800 for cabinets, a stove, a refrigerator, and a sink. Then he turned around and installed the equipment. His constituents see him more often in coveralls than in a business suit.

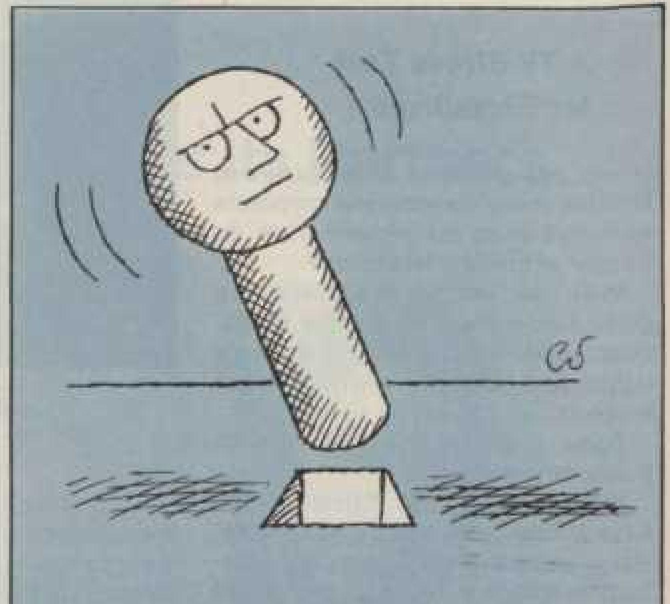
"As long as I'm in office I intend to give the people the kind of responsible government they deserve," he says.

That kind of attitude seems to sit well with the voters. Mr. Elble was elected to his second term as township supervisor without opposition. •

How to Hire the Right Man

BY DAVID O. BAILEY

Hiring the wrong executive can be costly and disruptive to your organization. Here is how to keep from making that mistake



Avoid round peg in square hole

SELECTING A SENIOR EXECUTIVE for your organization is always a difficult task. Selecting the wrong one can be a disaster.

It takes at least 60 to 90 days to find a new senior executive, and it can take as long as six months. That is costly, but unavoidable. If you pick the wrong man, however, the real expense begins later.

A new executive generally requires from three to six months to learn the job, assess business conditions, and begin to contribute. Then, six months to a year is needed for him to completely demonstrate his competence or lack of it.

If you have made a poor choice, you have lost nine to 18 months, as well as the time required to find the man or woman in the first place. In addition, you face these costs:

- Possible loss of valuable but now unhappy employees.
- Wasted resources.
- Likelihood of lost sales or production.
- Shaken morale throughout your organization.

Only then do you come to the cost of severance pay and the expense of starting the search all over again.

To choose wisely

How can you avoid these dangers?

First, be sure you have defined the job that really must be done. If you are replacing someone, bear in mind that the title is not necessarily a true description of the job. Over a period of years, the man in the position tends to mold or change the job to fit him. The way he gets his job done, how he deals with assistants, peers, and supervisors, these are interpersonal relationships that may not appear on any organization chart. However, they are matters of the utmost consequence in the way your organization really runs.

If the job is a new one, you must determine how the new executive will fit into established procedures that cannot or should not be changed. Define, too, in what areas he should be allowed to set up new working and reporting responsibilities.

This kind of analysis is vital. Many times, the person hired for a job is perfectly competent, perhaps even brilliant, but a round peg in a square hole.

For example, a nationally known leisure products manufacturer was rapidly losing its share of the market. The company's board decided to replace the president with someone who was highly skilled in marketing. The board found a man who had an excellent record of achievement and whose experience perfectly matched the board's requirements. The man had risen rapidly both in field operations and in headquarters positions. He was a marketing professional who had successfully made the transition to general management. The board assumed that he could turn the company around by applying his marketing expertise.

Instead, he was out within a year because he had not made real progress toward a profitable operation.

What the company needed

Unfortunately, he was not able to define the company's basic problem soon enough to correct it.

The company had fallen behind others in its industry in technology and lacked the know-how to make satisfactory products. Rather than marketing skill, what the company needed was expertise in chemistry and plastics technology.

Eventually, the board found a technically skilled and innovative manufacturing man. He led the organization out of trouble.

The moral is simple: Be sure you know what your problem is before you hire someone to solve it.

One of the obvious pitfalls is that companies tend to follow the herd. That is, at one time, everyone seems to

Agree on what you are looking for

believe that all problems are basically financial. At another time, the consensus is that marketing solves everything or that the magic formula for success lies in production or research. Obviously, the business world is not that simple.

A company can be almost as complex as a human being. Panaceas are rarely satisfactory cures for what ails a firm.

A few years ago, the trend was to recruit from big industry leaders, such as Ford, General Motors, General Electric, or Procter & Gamble. These firms recruit top young talent and train people well in sophisticated management.

However, many of these young tigers failed to produce in smaller, less structured companies.

End of a meteoric rise

For example, a 34-year-old business school graduate rose meteorically in one of the big companies. He was then hired by a small midwestern food company that wanted to expand distribution of an excellent product into retail stores.

The new man was to build an organization, develop a line of consumer packages, and launch the business. He was expected to work through a broker organization of shirt-sleeved, independent businessmen. He failed and was released 18 months later.

The reason? He spent so much time writing policies, defining procedures, and analyzing data that nothing moved ahead.

In his former company, he had access to extensive support personnel and backup data that the small company could not provide. Furthermore, he did not get along well with the broker representatives and was not able to motivate them. Soon, he developed such a poor reputation within the trade that it took the company a year to repair the damage.

There are other pitfalls. Take the corporation that was headed by a strong, dynamic executive who was accustomed to giving peremptory orders and having them carried out unquestioningly. In his own view, he was giving normal leadership.

When he needed an assistant, he thought he wanted a replica of himself. However, it was most improbable that two people with the chief executive's personality could work together without conflict. Clearly, what was needed was an assistant of an entirely different kind.

How to avoid pitfalls

Here are some procedures in hiring executives that can be helpful:

1. Before the search begins, have every executive involved in the hiring decision carefully review and agree to the job description and the qualifications desired in the man who will fill it.

2. Have the manager who will be the new executive's boss write the job specifications that have been agreed upon. These specifications should be detailed, spelling out the background or expertise the new executive should have. Be sure the specifications include the personal characteristics the new man will need to get along with superiors, peers, and staff.

3. Give copies of these specifications to the senior executives who will be working with the newcomer. Then, hold a meeting to discuss the specifications to make sure everyone agrees on them. Inconsistencies or differences of opinion should come to light in this phase and be resolved in advance of the search.

My search firm recently was given the task of finding a fast-track general manager. We were told to look for a man with strong manufacturing experience, and we did. We spent two months of exhaustive research, screening of prospects, and interviewing. The search narrowed down to two excellent candidates.

Unfortunately, the president of the company was not involved in drafting the original job specifications. He was brought into the picture only at the point of final approval. As the president saw it, the long-term problem involved marketing. He suggested that the job be filled by promoting an executive in the company's marketing division.

So the company had wasted its time and money.

4. If you have key executives with different management styles or philosophies, make every effort to match the newcomer with the style and values of the executive under whom he will be working most directly. If this match is not made, the new executive is sure not to work out. Either his superior will eventually fire him, or the newcomer will be so unhappy that he quits.

When you have done these preliminaries, you still must go out and find the person you need. But you will, at least, know what you are looking for, and your standards will be realistic. END

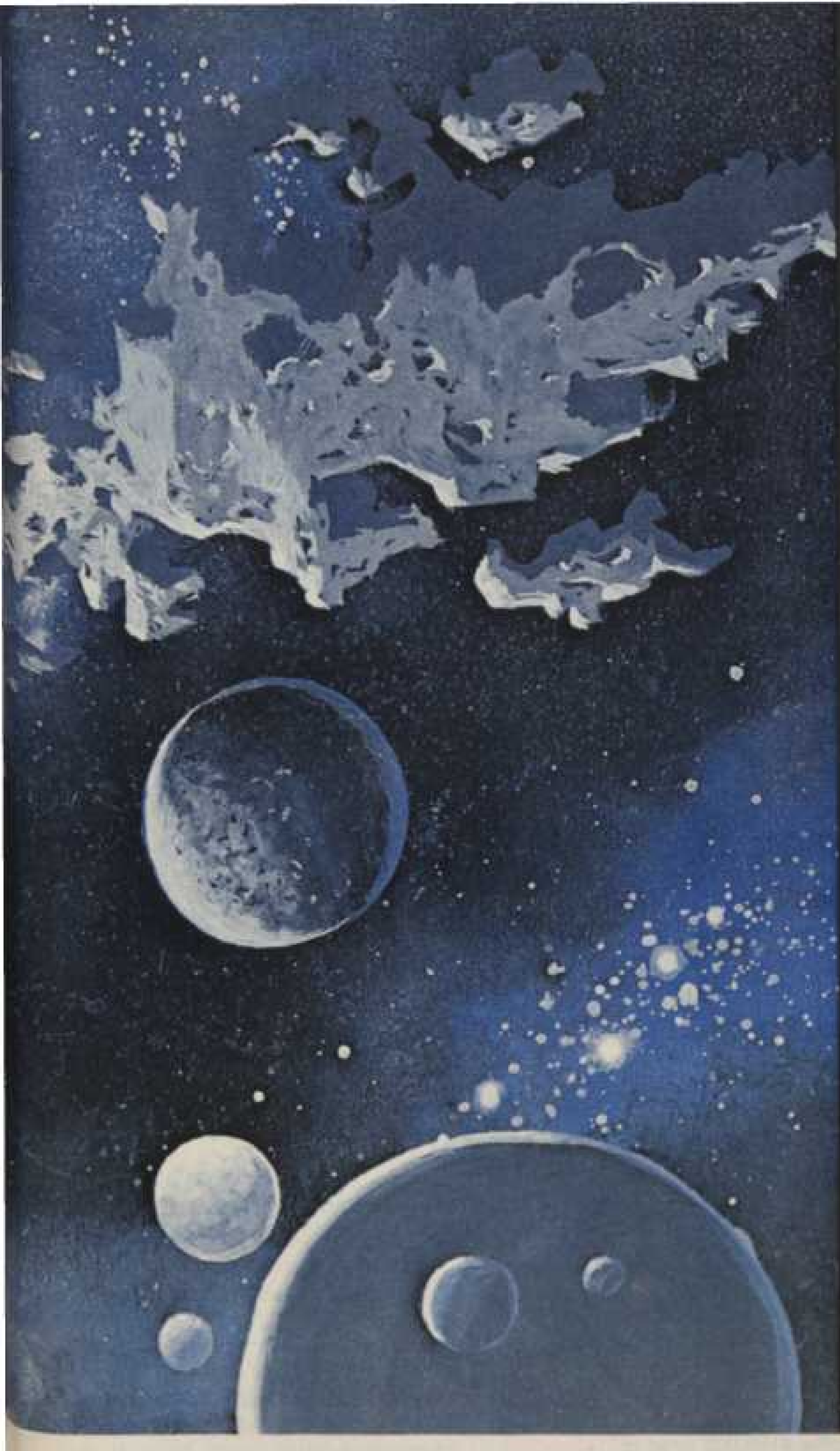
THE AUTHOR *of this article is senior vice president and manager of the New York office of Paul R. Ray & Co., Inc., an executive search firm. Reprints are available from Nation's Business. See page 34 for details.*

FREEDOM 2000

Cited this year by *Business Screen* as one of the "most honored" films, the National Chamber's FREEDOM 2000 is the winner of the Freedoms Foundation's Principal Award and the CINE Golden Eagle, and has gold medals from major film festivals.

A key reason for all this acclaim is that the film is highly entertaining as well as educational . . . utilizing a science fiction framework. The observations of intelligent visitors from another planet highlight what's been happening in America, how our economic system developed, the problems and priorities we face today. The film is an excellent way to explain our American business system to people of all ages. For school and college use, there is a specially prepared Teacher's Guide which is distributed with the film at no charge.

FREEDOM 2000 is an exceptionally appropriate film to show during the Bicentennial year because it demonstrates how the independence and self-reliance of our early settlers led to an economic system in which the rights and choices of the individual are of paramount importance. It will help correct widespread misinformation about business, and appeal to anyone who has an interest in preserving our political, religious, social and economic freedoms.



VIEWPOINT

How Businessmen Can Help Schools of Business

BY H. JUSTIN DAVIDSON

GRADUATE SCHOOLS OF BUSINESS are in trouble. They are in trouble because universities are in trouble.

In order to understand the problems of business schools, it is necessary first to understand the problems of universities.

The difficulties of universities stem from inflation, a loss of public confidence, and inadequate income. Universities don't have a profit objective, but they must recover their costs. While the mix of income varies for public and private institutions, all rely on tuition, individual and business giving, endowment income, foundation support, and government subsidy.

Effect of inflation

For private schools, tuition is largely determined in the marketplace and is a significant part of total income for most. At public schools, tuition is often a political decision. Because of this political factor, public school tuition moves upward hesitantly in times of inflation, if at all. State legislatures and city councils are keenly aware of voter reaction to pricing in higher education. This makes it difficult for the private school to raise tuition.

Individual and business giving, critical to the private university, falters when confidence in higher education diminishes. Giving also lags in times of inflation. So do endowments and foundation contributions.

Direct government subsidies, the principal source of income for public universities, are also vulnerable to inflation and changes in confidence. Practical governments retrench by spending less where the political impact is the least. Having little organized political clout, students and faculty members feel the impact first.

"... University administrators commonly believe that business schools are rich and should be taxed accordingly. Isn't that what Robin Hood did? Take from the rich and give to the poor?"

Part of larger problem

Public or private, graduate schools of business share the problems of the universities of which they are a part. They also have special problems of their own. One involves allocation of resources within the university. The other involves business support of business schools.

With few exceptions—and Cornell is fortunately one of them—university administrators commonly believe that business schools are rich and should be taxed accordingly. Isn't that what Robin Hood did? Take from the rich and give to the poor?

The second view is seldom expressed, except genteelly: Business schools are seen as faintly disreputable, the poor intellectual cousins of the respectable arts and sciences.

These attitudes have little impact where graduate schools of business are autonomous. If a business school is given survival responsibility, if it is permitted to operate in the same manner as a decentralized division of General Motors, then the graduate school of business operates as a mini-university.

Deprived of fair share

Unfortunately, only a handful of graduate business schools—Harvard is an example—enjoy such freedom and responsibility. The great majority operate under a centralized university system of budgeting. When this is the case, central administrators frequently deprive business schools of their fair share of university resources.

Over the years, they have devised a number of ingenious and plausible-sounding approaches for doing so.

One time-tested approach is letting resources lag behind need: "Next year we will redress the resource

problem." In a period of growing enrollments, this approach leads to continuing undernourishment of the business school.

At the current time, many of the country's graduate schools of business, especially those in public universities, are experiencing rapidly rising enrollment.

Two formerly deprived segments of our society, minorities and women, now consider graduate business education as an attractive career. They are entering graduate schools of business in increasing numbers. Because of the recession, more liberal-arts graduates now perceive themselves as ill-prepared for the world of work. They, too, are increasingly entering graduate schools of business.

Not matching enrollments

Too often, however, real resources have remained constant in the face of these increased enrollments.

A crude but frequently used approach is "income transfer." Suppose, for example, a business school receives modest aid from business to support an area such as accounting. At budget time, the university administrator argues that all resources should be considered in making a budget decision. The business school, he states, should be able to get by with less funds from the central administration.

A final approach is straightforward deprivation—preferable to business school deans for its openness. "We are going to decrease (or not going to increase) your budget because of the greater good of the greater university." With this approach, the dean can at least make his objections straightforwardly. As one dean recently said, "I have no objection to supporting a department of philosophy." He left unsaid, "but not a whole liberal arts college."

Where help is needed most

At one time or another, most deans of graduate schools of business have had to parry one or another of these approaches. Some win. Some lose. Unfortunately, the loss ratio is too high. Worse even, these losses most frequently occur in the graduate school of business that is most in need of help—the school at the margin of acceptable quality.

"As the prime source of future managers, as organizations dedicated to strengthening American business, business schools have a strong case for business preference."

—H. Justin Davidson

Fortunately, there is countervailing influence to help such schools. As part of its initial and continuing accreditation process, the American Assembly of Collegiate Schools of Business periodically reviews the allocation of university resources to business schools. Universities that grossly misallocate resources face a powerful sanction, loss of accreditation.

An equally pressing problem for business schools is the need for more support from business.

By any standard, American business has contributed generously to the society in which it lives. Perhaps desirably, business contributions have covered the gamut of social needs in the United States.

Business schools believe, however, that their needs should be of special concern to business.

As the prime source of future managers, as organizations dedicated to strengthening American business, business schools have a strong case for business preference.

How executives can help

As well as money, business schools need and welcome the participation of the business manager in the educational process.

The business manager can help in two ways. First, he can teach. Whether as an executive in residence or as a visiting lecturer for a single class session, he can bring his experience and enthusiasm to business education. The result of such interaction is clear: student insight about the effective meshing of business theory and practice, student zest for the world of business.

A second way business managers can participate is as advisers to the schools of business. Nearly all business schools have advisory councils. Deans of business schools welcome counsel, just as chief executive officers welcome advice from their boards of directors.

The genius of business

American universities and American graduate schools of business, like business itself, confront many problems. The genius of American business has been its ability to find practical solutions to vexing problems. Although the problems are severe, a surprise-free prediction is that business schools, with the help of business, will solve them well in years ahead. END

MR. DAVIDSON *is dean of the Graduate School of Business and Public Administration, Cornell University.* *Reprints of this article are available from Nation's Business.* *See page 34 for details.*

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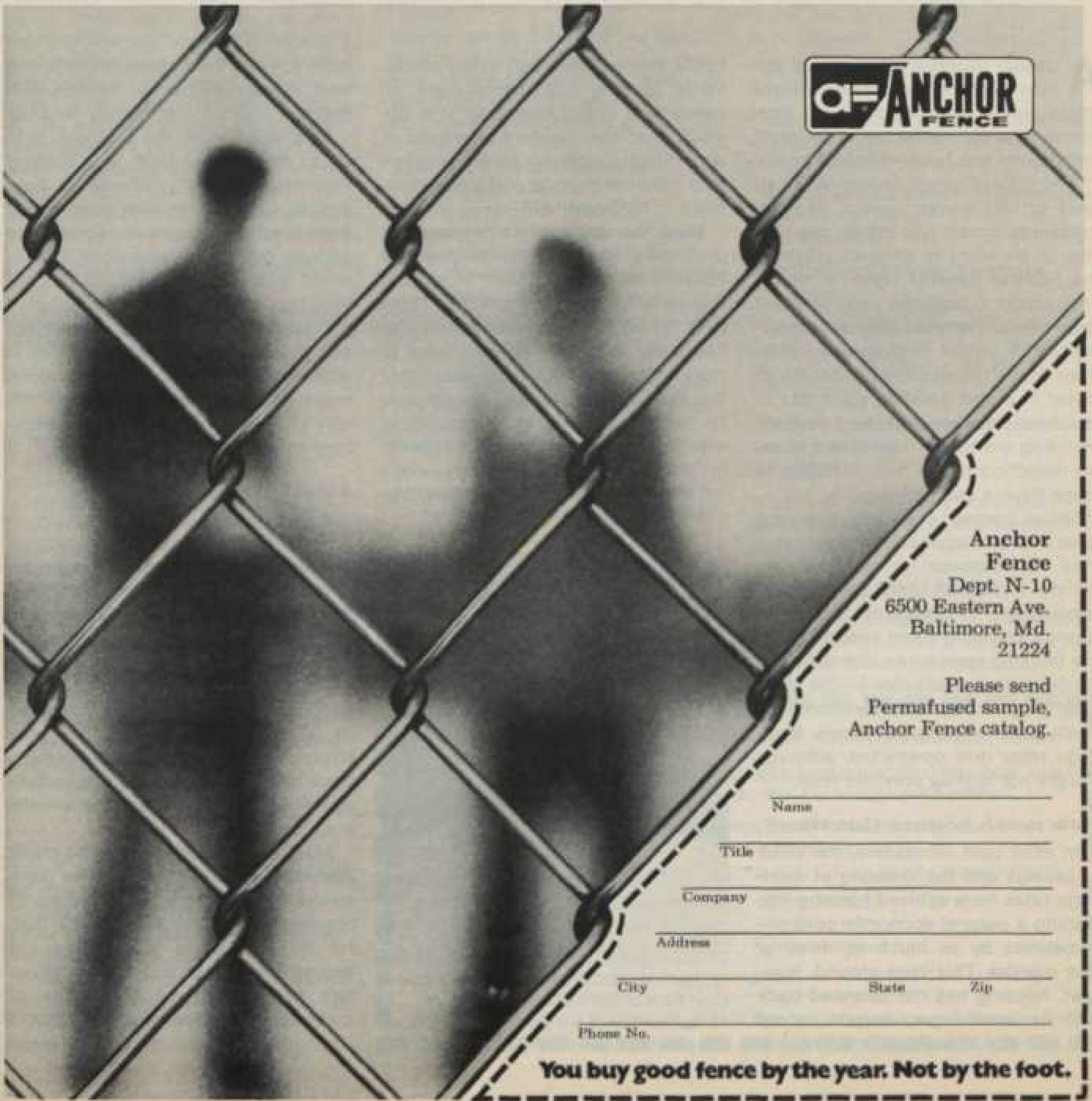


Prescription for a Healthier Housing Industry

Home builders and the thrift institutions that supply most mortgage money have been on a financial roller coaster. Here's how to get them off, an expert says

BY MAURICE MANN

A casual observer of business cycles over the past decade might mistakenly conclude that an economic downturn is far better for thrift institutions and housing than a boom.

The pattern is well-known. As business activity moves upward, demand pressures mount and prices begin to rise. In an effort to dampen inflation, the Federal Reserve tightens money and credit conditions, and interest rates climb. The next step is disintermediation—when consumers withdraw funds from savings accounts to invest in higher-yielding securities in the open market—followed quickly by rising mortgage rates and a drastic reduction in the flow of funds to home buyers and builders.

Relief comes when the economy goes into a tailspin and interest rates drop in response to reduced demands for credit and Federal Reserve efforts to counteract the downturn by pumping more reserves into the banking system. As interest rates decline, thrift institutions—the principal suppliers of funds for housing—again experience large inflows. Mortgage rates drift downward, although usually not to their previous level.

How much bounce this time?

In most past recessions, the influx of savings and the lowering of mortgage rates have spurred housing into leading a general economic upturn—sometimes by as much as three or four months. This time around, however, housing has not bounced back with its usual vigor, despite record net inflows of savings into the nation's savings and loan associations. While housing has shown signs recently of a mild turnaround, it is obvious that the residential construction industry suffered severe damage as a result of periods of disintermediation in 1973 and 1974.

Must the cycle of monetary feast or famine for thrift institutions and housing be repeated with increasing regularity? In my opinion, no. However, given the apparent inability of fiscal and monetary policymakers to work in tandem, it seems clear that the Federal Reserve will continue to be the major force in attempting to maintain some semblance of balance in the economy, particularly when inflation-fighting is the primary objective. Thrift institutions and housing bear a disproportionate burden as a result of restrictive monetary policies.

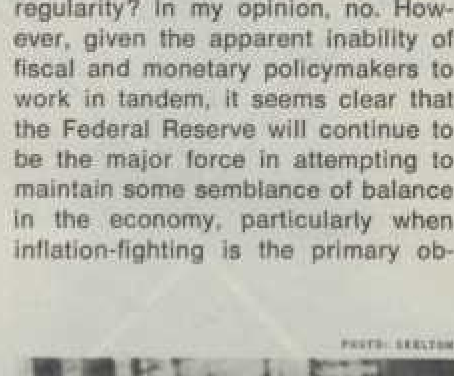
One solution to the problem is to try to insulate the thrift and housing industries from the effects of tight money through various government subsidies and programs. To a large degree, this is the approach usually relied upon when these industries get into trouble. Government assistance efforts, however, can only go so far, and there are numerous inequities in administering them. Furthermore, most programs of this nature are only short-run palliatives, not permanent solutions.

Attacking the root cause

A more sensible approach is to attack the root cause of cyclical instability in the housing market—namely, the inability of thrift institutions to compete effectively in a tight economy. In the past decade, savings institutions have experienced four periods of substantial disintermediation. Each period has been marked by a downturn in residential construction, and the last two—coming back to back—were particularly damaging to the infrastructure of the building industry.

Moreover, the effect of these credit crunches might have been even more severe had it not been for a series of regulatory changes since 1969 that, for S and L's, at least, have improved their asset and liability structure and broadened the scope of their activities. For example, S and L's today are permitted to make

PHOTO: SKELTON



Dr. Mann is president of the Federal Home Loan Bank of San Francisco, largest of 12 regional banks in a system that regulates and provides credit to thrift institutions.

loans for mobile homes, home improvements, education, and household equipment, as well as loans on passbook accounts for a variety of purposes. Greater structural flexibility has been added to the industry through liberalization of regulations on mergers, holding company activities, and service corporations.

Nevertheless, the competitive viability of savings institutions is still limited, and they remain primarily one-asset, one-liability institutions—i.e., mortgage loans and savings accounts. In contrast, commercial banks are able to offer a wide variety of services to both consumers and commercial customers, and therefore they have much greater flexibility to adjust to shifting economic and financial conditions.

A new identity

Accordingly, restructuring of the thrift industry is vital to permit nonbank savings institutions to compete and thrive in all phases of the business cycle. The major thrust of proposals to restructure the thrift industry—proposals such as the Financial Institutions Act currently being studied by Congress—is for thrift institutions to be given still broader powers to meet the families' financial needs.

The result would be somewhat of a new identity for the thrift industry.

Basically, S and L's and savings banks would be permitted to offer a full range of consumer financial services revolving around the most basic family financial need of all—money for a home. Within the parameters of such proposals, thrift institutions would be able to engage in many diverse activities. A full-service S and L, for example, would be able to sell mutual fund shares; broker stocks, bonds, and commodities; offer a variety of savings plans; provide household checking accounts; sell participations in mortgage loans; and offer personal trust services.

Thrift institutions would continue to place primary emphasis on residential mortgage lending, but would also undertake a full line of consumer lending on both a secured and unsecured basis, offer second deeds of trust, broaden their investment base to include a wider variety of eligible securities, and, in general, be the primary source of funds for the household sector of the community.

In short, these institutions would become one-stop family or consumer—or even retail—financial centers.

These changes would not come without a price, however, and the expense would have to be shared both by the thrift industry and by consumers. Home mortgages would be offered at unsubsidized rates of interest and probably on a variable-rate basis. Regulation Q controls on interest rates paid to savers would be gradually removed, thereby eliminating the rate differential between savings institutions and commercial banks that has existed for several years. Removing Regulation Q could bring an increase in the cost of savings to S and L's and banks, but this would result in higher returns to consumers on savings.

Important costs to thrift institutions would include those involved in the hiring and training of personnel in preparation for new activities, as well as in unadulterated participation in systems that transfer funds electronically. The latter, of course, is a must if the thrift industry is to achieve full-service status.

Funds for all phases

Critics of these proposals argue that such steps would merely convert thrift institutions into second-class banks and reduce the flow of funds into residential construction. To the contrary, I would argue that the impact on housing credit would be beneficial.

By offering a full line of services to consumers, including some type of checking accounts, savings institutions would be able to attract and retain a higher volume of funds through all phases of the business cycle—in contrast to the roller-coaster pattern that presently prevails in savings flows. Residential mortgages would continue to be the raison d'etre of the industry; the other services mentioned would, however, provide an important stabilizer that has been sorely lacking.

The end result would be a stronger and more viable thrift industry and, as a consequence, a more stable and productive housing industry.

Why Puerto Rico has become my standard for judging investment opportunities in the world

by Pierre A. Rinfret

One of the nation's most influential business economists reports on a recent trip to Puerto Rico.

Read why he says this U.S. island "offers investors the most attractive tax incentive programs available anywhere in the world today." Then send coupon below for details.

June 1975

"The Commonwealth of Puerto Rico asked if I would recommend U.S. capital investment there.

I went to judge its incentive program firsthand, on condition that my conclusions would be accepted without change.

There are things about Puerto Rico which delight me and reinforce my faith in the vibrancy and dynamism of the free-enterprise system.

Believe in free enterprise

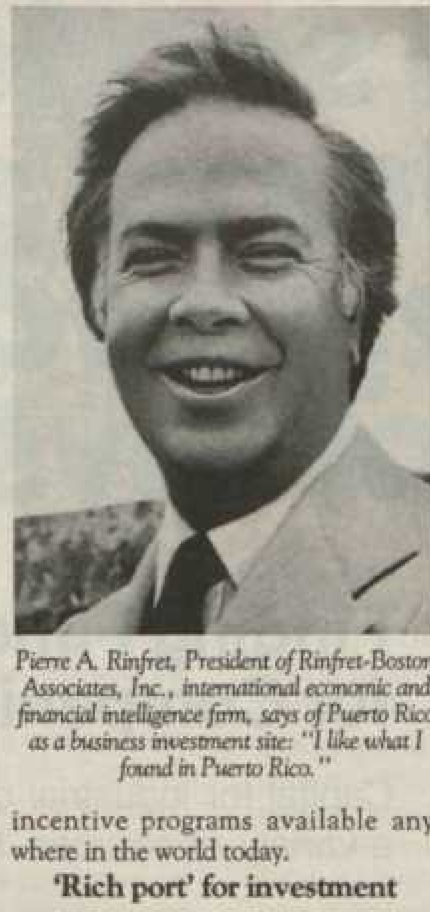
The base, the key, of Puerto Rico is that the private sector can do more to develop the Commonwealth than can government. You will have to admit that sets Puerto Rico apart from most, if not all, countries of the free world. The political leaders of Puerto Rico believe in free enterprise.

In the past several years, we have seen one political region after another spend itself into trouble. We have seen the deterioration of state finances and some near-misses in city bankruptcy.

Balanced their budget

When the worldwide recession of 1974-1975 hit, Puerto Rico had the courage and foresight to put a lid on spending, increase taxes to pay for the deficit, and balance their budget. Their financial house is in order.

Puerto Rico realizes that it can grow and create jobs for its people only by attracting private industry and private capital investment. The Commonwealth of Puerto Rico offers investors the most attractive tax incentive programs available anywhere in the world today.



Pierre A. Rinfret, President of Rinfret-Boston Associates, Inc., international economic and financial intelligence firm, says of Puerto Rico as a business investment site: "I like what I found in Puerto Rico."

'Rich port' for investment

Puerto Rico means 'rich port.' Puerto Rico is a rich port for investment. It provides political stability, an available labor supply, fiscal integrity, a dedication to free enterprise, and access to American and Latin American markets.

I am glad I went to Puerto Rico. On my next trip around the globe, Puerto Rico will be the standard by which I judge other investment opportunities in the world."

Puerto Rico's Benefits

Puerto Rico is a *Commonwealth* freely associated with the United States through a compact of union which elevated the island from territorial status in 1952.

The island's three million people—whose median age is less than 20 years—need jobs and they want to work. In order to help overcome the effects of the recession, the Commonwealth has broadened its tax and incentive benefits to industry.

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Finding Funds for Companies

Capital for industrial development comes from a variety of sources. Here are some of them

"It's there—if you know how to get it."

The comment comes from a veteran industrial developer.

By it, he means money.

To be specific, cash or guaranteed loans that the Agriculture Department's Farmers Home Administration spreads around under the Rural Development Act. The purpose is to put more zip into the economy of rural America. Last year, the agency disseminated $563 million this way.

In addition, the Farmers Home Administration last year made $627 million worth of loans and grants to communities for water systems and waste disposal.

"This is a program that predates the Rural Development Act," an Agriculture Department spokesman says, "and doesn't come under it. It is not tied to industrial development, but obviously can contribute to it."

Helping out in Wharton

This year, Woods & Copeland Manufacturing, Inc., of Wharton, Texas, negotiated a $500,000 loan. The money was used to expand its tractor factory. The firm, located in the Texas rice belt, makes a four-wheel-drive, heavy-duty, 320 to 600 horsepower tractor that sells well.

The company got the half-million dollars from the Wharton Bank & Trust Co. For a small bank, that's a lot of money.

"We probably wouldn't have made the loan," says a bank spokesman, "if the Farmers Home Administration hadn't guaranteed 90 percent of

Finding Funds for Companies *continued*

it." With a bigger plant, Woods & Copeland intends to hire 50 more people. To Wharton, population 7,881, that's a lot of jobs.

To Pikeville's rescue

Last year, in Pikeville, Tenn., a local clothing plant closed its doors. The owner shut it down when the recession hit and caught his company with a big, expensive inventory.

Many people in and around Pikeville, population 1,454, worked there. When the company folded, there were no jobs in sight for them.

Enter J.M.P. Enterprises, Inc.

This company operates clothing factories in two small towns nearby. President James D. Jones believed he could take over the Pikeville plant and make it pay, too.

The trouble was money.

Mr. Jones figured it would take \$206,000 to put the plant back on its feet. He couldn't spare it, but fortunately the town's First National Bank could. With a 90 percent guarantee from the Farmers Home Administration, the bank was willing to take the risk.

Now, 160 people, mostly local housewives, are gainfully employed again, making denim western clothing in Pikeville.

A new program

The Rural Development Act program "is fairly new," says David C. Pals, managing director, Office of Industrial Development, Illinois Department of Business and Economic Development.

"It also covers a lot more territory than many realize.

"For that reason, some developers aren't aware of the program's possibilities. We have found it a valuable source of financial assistance."

Congress passed the Rural Development Act in 1972.

"But it took a while for Washington to gear up," an Oklahoma banker says. "The first loans or grants weren't made until late 1973."

By definition, the rural areas the act covers take in 35 to 56 percent of the nation's population.

How to pick up the plums

"One old standby is almost a has-been," says a midwestern industrial

developer. "That's the tax-exempt industrial revenue bond."

Why?

"It has a $1 million ceiling," he explains, "except in special situations. With today's construction costs, $1 million doesn't go very far."

Rep. Robert W. Kasten, Jr., (R.-Wis.) agrees. That ceiling was imposed in 1968, he points out.

"Inflation, new government rules and regulations applicable to industry, and changing technology have made the $1 million general limit out-of-date," he says.

He has introduced a bill to raise the ceiling to $10 million.

Many bills similar to his now await action by the House's tax-writing Ways and Means Committee.

Revolving loan funds

"A major consideration in every plant location is the method of financing the new facility," says Dorman M. Miller, vice president, customer services, American Electric Power Co. "Some state governments have established revolving funds from which low-cost loans are made available to industry.

"In like manner, several states have established so-called loan guarantee funds. These funds are used to guarantee loans a private company negotiates through a normal commercial channel in order to finance industrial expansion."

In the next few years, industry must spend billions to comply with antipollution laws. That requirement applies to factories, mills, refineries—industrial installations of all kinds, new or old.

The bill is staggering.

To attract new industry, or hold what they have, many communities are offering to help their corporate citizens raise that money.

One device used is the tax-exempt pollution control revenue bond.

The tax-exempt status is conferred by the community. It is the corporate client, which receives the money, whose full faith and credit is pledged to pay off the debt.

Last year, The Daily Bond Buyer reports, only $340 million worth of industrial development revenue bonds were sold publicly. In the same period, $1.7 billion worth of pollution control bonds were marketed.

Many more bond issues of both types were privately placed.

John E. Petersen, director, Washington office of the Municipal Finance Officers Association, estimates recent issues of pollution control bonds at $2.5 billion a year. This, of course, is still only a small fraction of the $112 billion U.S. business firms spent last year on new plant and equipment.

Fewer antipollution bonds?

Unlike industrial development bonds, there's no federal ceiling on the size of a pollution control bond issue.

However, these debt instruments may have seen their heyday, says

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Blyth Eastman Dillon & Co., Inc. The New York investment banking firm is the leading underwriter of tax-exempt municipal bonds.

"The pollution control business may be considerably more limited in the future," says Stanley T. Pardo, executive vice president. "Internal Revenue Service has proposed new regulations which will probably severely limit this type of financing.

"For example, the new proposed regulations exclude, in general, things which are considered to prevent the actual occurrence of pollution, as opposed to abating an existing source of pollution."

Proposed new IRS rules, illustrated with abstruse mathematical formulae and spelled out in murky legal language, can be unearthed in the Federal Register, Vol. 40, No. 162, Aug. 20, 1975.

Start on page 36371.

There's a saying that man proposes, but God disposes.

That cuts no ice in Washington. What the Federal Register proposes, IRS, SEC, FTC, DOD, HUD, FCC, EEOC, CPSC, OSHA, or some other alphabet agency will almost certainly enforce.

Hence, deemphasis of the pollution control bond?

Needed: Imagination

"Many foreign firms are very, very savvy about financing and structuring financing packages," says Mark Feinberg, executive director of development, Connecticut Department of Commerce.

"They're good shoppers for money, and very creative in financing.

"For example, two West German firms locating here in Connecticut. Both are using tax-exempt bonds and a negotiated interest rate, at a percentage of prime, adjusted every six months."

Overall, Mr. Feinberg says, "we are faced with a capital-short economy."

To hold or attract industry, he says, the key can be the ability to put together a sound and imaginative financial package.

Skowhegan, Me., population 7,601, offers an example of what he means.

Scott Paper Co. is building a $190 million paper pulp mill there.

"The company has an old mill, not far away, in Winslow," says Richard LaPorte, industrial developer, Somerset County, Me. "The mill is a heavy polluter.

"Installing pollution control equipment was prohibitively expensive. Scott was better off building a new mill elsewhere.

"The company wanted to stay close to Winslow, where it has a plant that makes paper towels, toilet tissue, and a variety of other paper products. That way, Scott could transport pulp from its new mill to the Winslow plant."

Skowhegan put together an attractive package to help finance construction. Namely, $23 million in pollution control bonds and $1 million in industrial development bonds.

The pollution control bonds carry an interest rate of 7⅝ percent, the industrial bonds, 6¼ percent. "That's a lot lower rate than Scott could borrow for otherwise," Mr. LaPorte points out.

When the mill is in full operation, it will employ 300 people. Most of them will come from the old mill in Winslow, but some presumably will be Skowhegan residents.

"Also," says Mr. LaPorte, "the plant will greatly increase the town's tax base. In anticipation, Skowhegan has cut its tax rate from $49 per $1,000 of assessed value to $40 and its assessments from 68 percent of market value to 60 percent.

"In addition, the mill creates some satellite businesses to serve it. For example, trucking, and companies that service truckers, like sellers of diesel fuel."

Watching their pennies

To a big company like Scott Paper, what difference would a few percentage points make on $24 million worth of bonds?

One percent interest on $24 million is $240,000 a year.

"When you're thinking of building a new plant, or expanding an old one," says Richard Higgins, executive director, Connecticut Development Authority, "the cost of financing is one of the critical factors for any business.

"Major corporations watch their pennies as closely as anyone." END

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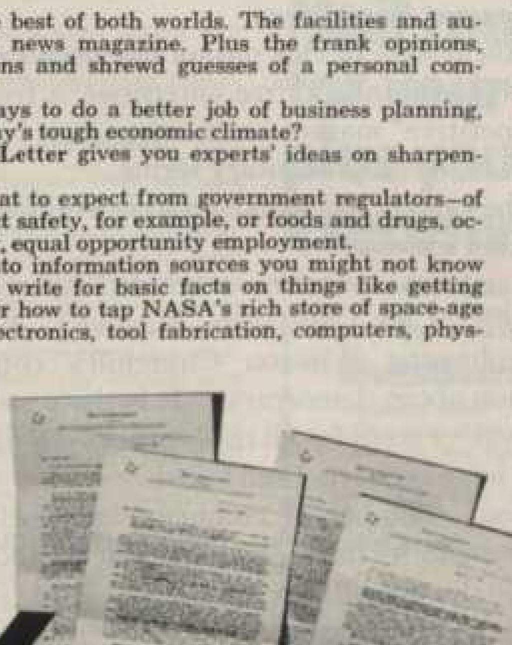

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BUSINESS: A LOOK AHEAD

BY GROVER HEIMAN
Associate Editor

Labor Unions Fail to Enlarge Their Share of the Work Force

Organized labor continues adding to its rolls, but when considered against the growth of the nation's work force as a whole, union membership is merely holding its own.

Despite a 4.8 percent increase in numbers of organized workers in two years, the ratio of organized to unorganized remains pretty steady. In 1974, the Labor Department found 24.5 percent of all workers belonged to unions or associations that perform unionlike functions for their members. In 1972, the figure was 24.3 percent. In 1970, it was 24.7.

The big boost in recent years has come through gains posted by the National Education Association. NEA accounted for 80 percent of an increase of nearly 400,000 in association membership from 1972 to 1974.

As a result of such inroads, unionized white-collar workers now total nearly six million and represent 24.3 percent of all union members, up from 22.6 percent in 1972 and 21.8 percent in 1970.

FTC Launches Survey Despite Opposition From Business

The Federal Trade Commission has called for a report from the 1,000 largest manufacturers that is controversial, to say the least.

FTC's latest contribution to the paper flow is called a corporate patterns report for the 1972 business year. The last such report was in 1950. The agency, looking for antitrust violations, is asking for the value of shipments of products in 1,300 categories, and data on the formation of ownership links, joint ventures, and sales in nonmanufacturing activities.

Dr. William Levin, former chief of FTC's financial statistical division, says the data will be defective. It will be unreliable for antitrust work, he says, since it will ignore actual sales. Another flaw he notes is that the survey's reporting unit is an "establishment." A manufacturer may have many such units which ship goods to each other, thus inflating the figures, Dr. Levin says.

The Chamber of Commerce of the United States has vigorously opposed FTC's plans for the survey. The Chamber warns that while FTC says the data will be held confidential until Jan. 1, 1978, it will actually be available to a host of agencies and organizations. Further, the Chamber argues that while FTC says the information would be exempt from the Freedom of Information Act, which requires public disclosure of many government documents, a court case would likely prove otherwise.

Waterways Users May Be Taxed

Waterways users are girding for a stiff battle to ward off attempts to impose a charge on vessels plying American rivers, lakes, and canals.

Traditionally, waterways maintained by the U.S. Army Corps of Engineers have been traversed free of charge. Now, the administration is talking of a users' tax.

Major targets of advocates of a users' tax are the barge industry and other commercial water carriers, which have had a phenomenal growth in tonnage carried. In the past 25 years, the volume of tonnage hauled on the waterway system has doubled. Ton mileage has increased fivefold.

In many areas, the system is becoming saturated with traffic. The General Accounting Office estimates that about $6.7 billion in improvements would be needed to meet future traffic requirements on the Mississippi, Illinois, and Ohio rivers alone. In a new report, GAO is expected to suggest imposition of a users' charge to defray such costs as well as expenses of maintaining the system.

In addition, Secretary of Transportation William T. Coleman, Jr., last month proposed taxing users of the inland waterway system as one step toward making railroads more competitive. He made the proposal in outlining suggestions for a national transportation policy.

Small Businesses Continue to Increase

Despite a multitude of problems, the great American dream of owning one's own business still beckons.

According to economic indicators, the total number of small businesses increased in 1974 despite the recession, although the growth was not as rapid as it had been in 1973. Most of the 1974 gains occurred in part-time and very small businesses, which is typical in recession periods.

Failures increased in 1974 for the first time since the recession of 1970, the Small Business Administration reports. The failure rate was six percent higher than in 1973, or an average of 38 per 10,000 firms. States along the eastern seaboard experienced the greatest percentage of failure increases.

The most recent year for which the government has solid figures on the number of small firms is 1972.

Using Internal Revenue Service data, SBA reports that of 9.7 million businesses in the nation that year, 9.2 million fell in the small business category. That represents a growth of 5.5 percent in the number of small firms over the previous year.

Agricultural Export Outlook Is Brighter

After a not-too-promising initial forecast on farm exports this fiscal year, the Agriculture Department now predicts they will bring in at least as much as they did in fiscal 1975—$21.6 billion. They could top that record figure.

The department's Outlook and Situation Board issued a cautious and conservative prediction last spring [see "Business: A Look Ahead," July, 1975] in which it estimated a 20 percent drop in agricultural export dollars. However, the subsequent Soviet crop reverses will result in substantial sales, and increases are also anticipated now in exports to Asian countries, Canada, and North Africa.

Currently, the Agriculture Department predicts sales abroad of 100 million tons of principal agricultural commodities, some 12 million tons above last year. The total dollar inflow isn't expected to keep pace with that increase because export prices are likely to average below those of last year.

This year, the Agriculture Department estimates, almost 60 percent of the U.S. wheat crop, a fourth of the corn grown, half of the soybeans, and 40 percent of the cotton will be exported.

The department originally envisioned a drop in agricultural imports from some $9.6 billion to less than $9 billion. Now, that has been revised upward to $9.3 billion.

Federal Agencies May Try Compressed Week

Certain to cause a flurry of debate, if it ever reaches the floors on Capitol Hill, is a Civil Service Commission proposal to permit federal agencies to experiment with compressed as well as flexible work schedules.

Flexible scheduling—flextime, it is called—is a practice already in use in private business and in some government units. [See "Picking Your Own Work Time," *Nation's Business*, September, 1973.]

Under the concept, as implemented in federal agencies, periods of core time are established during which all employees have to be on the job. Individually, an employee is able to choose the other hours of the week he or she wants to work to complete 40 hours. However, the employee must put in five days in a week.

Under the compressed work schedule concept, an employee may work less than five days by putting in long hours. For example, the employee could work ten hours a day for four days.

Congressional approval would be required for federal agencies to try compressed time.

How the Smallest Farm Has Grown

Land that produces sales of agricultural products of $1,000 or more during a year is a farm, according to the Census Bureau.

The federal government has come up with several different definitions of a farm since first defining the term for census purposes in 1850. In the last three agricultural censuses—1959, 1964, and 1969—the definition was this: Any place with sales of $250 or more in agricultural products; or any place of ten acres or more with sales of $50 or more.

The effect of the latest definition change will begin showing up in the 1974 farm census reports, which are slated to begin appearing in late fall. Some data will be shown under both the old and new definitions.

Objective of the change is to make farm statistics more meaningful.

As it presently does, the Census Bureau will continue to list as farms places which would meet the minimum sales requirement if not for crop failure or livestock loss.

EDITORIAL

The Social Security Tax Problem

SOCIAL SECURITY has just begun its 41st year. Its birthday was Aug. 14.

This is a good time to appraise the system and see where it is headed.

The good news is that some 32 million Americans are now receiving nearly $5.8 billion a month in Social Security checks—$69.5 billion a year. This money is helping a lot of our elderly people, younger widows, children, and disabled who have qualified to receive these payments.

The disturbing news is that more than 100 million other Americans—working men and women—and their employers are paying $66.5 billion this year to keep the Social Security system operating.

In other words, we have reached the point in this country where it takes three persons—who are actively employed—to pay for one person who is receiving Social Security payments.

Is there any danger that the system will go bankrupt? No, not so long as the government can keep on collecting taxes.

However, Social Security is heading into a serious problem. This year, for the first time since the Social Security system was established, tax collections will be short of equaling benefit payouts—$3 billion short.

This has been caused in large part by overexpansion of benefits. There are other reasons, of course, such as runaway inflation.

What is the solution to this problem?

The federal government has more than $46 billion in Social Security trust funds. A short-term solution—and this is the recommendation of the business community—would be to use this trust-fund money to cover deficits in the next year or so.

This would make it unnecessary to increase Social Security taxes above the level they are scheduled to reach in 1976. Congress should not raise these taxes further because such an increase would dampen economic recovery and contribute to higher unemployment.

The long-range solution, of course, is for Congress to ensure that future benefit increases are not excessive.

Social Security is worth preserving, not wrecking.

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98 REGENCY

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A lot of good taste that comes easy through the Micronite filter.